

EXHIBIT A

Day 1

NAE Arbitration

15 June 2016

<p>1 Wednesday, 15 June 2016</p> <p>2 (10.00 am)</p> <p>3 (Proceedings delayed)</p> <p>4 (10.30 am)</p> <p>5 Housekeeping</p> <p>6 THE CHAIRMAN: Good morning, everyone. It is June 15, 2016.</p> <p>7 This is LCIA arbitration 132498.</p> <p>8 My name is Tom Webster. On my left I have as</p> <p>9 co-arbitrator Lord Hoffmann. On my right,</p> <p>10 Professor Lew.</p> <p>11 The first thing is if people on both sides could</p> <p>12 have the attendees identify themselves for the record.</p> <p>13 MR NESBITT: Thank you, Mr Chairman. I am Simon Nesbitt.</p> <p>14 The Hogan Lovells' team beside me are Rob Shoesmith,</p> <p>15 Kate Wilford, Rowena Evans, Richard Trinick,</p> <p>16 Jess Webster, Mike Hornsey and Fred Kuchlin.</p> <p>17 And then from NAE and Eni, we have</p> <p>18 Mr Georgio Vicini, Gulio Caropreso, Giuseppe Cerrito,</p> <p>19 Enrico Caligaris from Eni Legal, Mr Ellis Ebohon from</p> <p>20 NAE Legal. We have Mr Michael Davison from</p> <p>21 Hogan Lovells, and besides Michael is</p> <p>22 Ms Daniella Ascoli, who is our Italian-English</p> <p>23 interpreter.</p> <p>24 THE CHAIRMAN: Thank you very much.</p> <p>25 Mr Wade, from the respondent's side?</p> <p>Page 1</p>	<p>1 MR NESBITT: As the Tribunal and the respondents are aware,</p> <p>2 one of our witnesses, Mr Carbonara, who is based in</p> <p>3 Myanmar, unfortunately has a medical issue, which means</p> <p>4 he is unable to travel. So we're arranging for him to</p> <p>5 give his evidence by video link, I think on Friday</p> <p>6 morning.</p> <p>7 The second issue is, again, as I think the Tribunal</p> <p>8 will have seen from the emails last night, in light of</p> <p>9 Dr Moy's latest iteration of his production forecast</p> <p>10 that has inevitably caused a delay to both Mr Filippi</p> <p>11 and Mr Good finalising their expert presentations. So</p> <p>12 one remaining item on the agenda is to fix a time for</p> <p>13 those to be provided. Ditto Mr Good and Mr Taylor are,</p> <p>14 I understand it, preparing a revised joint report to</p> <p>15 reflect the new figures generated by the impact of</p> <p>16 Dr Moy's further amendments, and that also we need to</p> <p>17 seek a deadline in respect of that.</p> <p>18 We are, I think, in a position where we can propose</p> <p>19 end of tomorrow, if that's satisfactory to the Tribunal.</p> <p>20 THE CHAIRMAN: Very good.</p> <p>21 Respondents, any procedural issue? Then you can</p> <p>22 respond in particular to the last item as regards the</p> <p>23 timing.</p> <p>24 MR WADE: The initial procedural issue which I must address</p> <p>25 is my clients' reservation of rights in respect of</p> <p>Page 3</p>
<p>1 MR WADE: From the respondent's side, I am Mr Wade. Next to</p> <p>2 him is Mr Gunning. Next to him is Mr Harley. Mr Malek,</p> <p>3 from Allied sits next to him. Beside -- I can't see who</p> <p>4 is beside you, actually.</p> <p>5 Julie Forsyth is next to Mr Malek, and</p> <p>6 Mr Maxime Girard from Navigant is next to them, and</p> <p>7 I will allow the people on the back seats, sorry</p> <p>8 gentlemen, to identify themselves.</p> <p>9 Felicity Yates, Ayo Awe, Alex Thornton,</p> <p>10 Camille Arnold.</p> <p>11 THE CHAIRMAN: Thank you very much.</p> <p>12 First of all, before we start, thank you very much,</p> <p>13 everyone, for the efforts to be here and be prepared by</p> <p>14 June, following our case management conference of</p> <p>15 October. Your efforts are very much appreciated.</p> <p>16 The Tribunal views that it is appropriate in</p> <p>17 international arbitration to proceed with reasonable</p> <p>18 speed, that's why we have proposed this schedule, and</p> <p>19 you've accomplished it, thank you.</p> <p>20 From a procedural point of view, any issues on the</p> <p>21 claimant's side?</p> <p>22 MR NESBITT: I have couple of housekeeping points,</p> <p>23 Mr Chairman, if you want me to raise them now, if that's</p> <p>24 what you mean by procedural points?</p> <p>25 THE CHAIRMAN: Yes.</p> <p>Page 2</p>	<p>1 jurisdictional matters, both before the High Court and</p> <p>2 before this Tribunal. There are two separate pending</p> <p>3 matters still.</p> <p>4 In relation to the service of joint expert reports</p> <p>5 and presentations, I believe that the current version of</p> <p>6 the reservoir engineers' joint statement is with</p> <p>7 Mr Filippi, and if tomorrow works, then we are content</p> <p>8 with that, and the presentations should be delivered as</p> <p>9 soon as possible thereafter.</p> <p>10 There is, I believe, although that might have been</p> <p>11 remedied already -- I'm not sure we have received the</p> <p>12 updated index of the bundles, and so the bundles were</p> <p>13 amended yesterday, and we don't have a consolidated</p> <p>14 index of those. That would be helpful. I am sure it is</p> <p>15 coming.</p> <p>16 THE CHAIRMAN: You can check on that and work that out</p> <p>17 between the parties. As regards the timing as well of</p> <p>18 any updated joint report, again we would ask you to work</p> <p>19 that out between the parties and then get back to us</p> <p>20 with how you see that coming out, and the Tribunal will</p> <p>21 be happy with what you have worked out within reasonable</p> <p>22 limitations.</p> <p>23 Now, with that, start with, I believe, the opening</p> <p>24 presentation of the claimant first. The court reporters</p> <p>25 have asked me to propose to you that there be</p> <p>Page 4</p>

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<p>1 a mid-morning break at some point, so you might want to</p> <p>2 factor that in.</p> <p>3 I think that was factored into your timetable to</p> <p>4 a certain extent, but I just make that point as</p> <p>5 a warning.</p> <p>6 MR NESBITT: A point well taken, Mr Chairman. Sorry, just</p> <p>7 in response to what Mr Wade said. I think he said that</p> <p>8 the revised reservoir experts' joint report is with</p> <p>9 Mr Filippi. As far as I'm aware, it is not suggested</p> <p>10 that there be a revised reservoir experts' report,</p> <p>11 Mr Filippi simply requires additional time to prepare</p> <p>12 his PowerPoint presentation, which is what we're</p> <p>13 proposing he'll be able to provide by the end of</p> <p>14 tomorrow. It's the quantum experts who, as I understand</p> <p>15 it, are preparing a revised joint report.</p> <p>16 THE CHAIRMAN: Very good. Thank you for the comment. We'll</p> <p>17 let the parties work that out between themselves and let</p> <p>18 us know if there's an issue.</p> <p>19 Opening submissions by MR NESBITT</p> <p>20 MR NESBITT: Thank you, Mr Chairman.</p> <p>21 With my colleagues from Hogan Lovells I appear for</p> <p>22 the claimant in this arbitration,</p> <p>23 Nigerian Agip Exploration Ltd, a subsidiary of the</p> <p>24 international oil and gas company Eni SpA.</p> <p>25 My clients claims are declaratory and monetary</p> <p style="text-align: center;">Page 5</p>	<p>1 page 9 at tab 1 you will see there, in Article 1.1,</p> <p>2 which is the definition section, the definition of "the</p> <p>3 transferred interests".</p> <p>4 So those transferred interests comprised, first,</p> <p>5 NAE's 40 per cent interest in the two deep offshore oil</p> <p>6 mining leases, OMLs, 120 and 121, the transfer of which</p> <p>7 was effected by way of a deed of assignment on</p> <p>8 completion, and it is OML 120 which contains the only</p> <p>9 producing discovery in the block, the Oyo field.</p> <p>10 The second important element of the transferred</p> <p>11 interests concerned the production sharing contract,</p> <p>12 which the parties entered into in 2005 and pursuant to</p> <p>13 which NAE was operating contractor of the Oyo field.</p> <p>14 That part of the transferred interests is more</p> <p>15 particularly defined in the SPA as:</p> <p>16 "All of the sellers [that's NAE's] rights,</p> <p>17 interests, duties, liabilities and obligations under the</p> <p>18 PSC or deriving therefrom, including its liabilities and</p> <p>19 obligations as operating contractor."</p> <p>20 That part of the deal was completed by way of the</p> <p>21 deed of novation. Just for reference, you don't need to</p> <p>22 turn it up yet, but that's in bundle G21, at tab 560.</p> <p>23 I should also add that also being transferred to</p> <p>24 Allied was all joint property, meaning materials,</p> <p>25 equipment, plant, machinery, et cetera, which had been</p> <p style="text-align: center;">Page 7</p>
<p>1 relief in respect of sums, which have at least in part</p> <p>2 been outstanding for almost four years. In the</p> <p>3 meantime, the respondents and their affiliates and those</p> <p>4 who own and control them have been enjoying the full</p> <p>5 benefit of the assets in respect of which those payments</p> <p>6 are due.</p> <p>7 Now, I have no doubt that the Tribunal has, not</p> <p>8 least as a result of the numerous interim applications</p> <p>9 and hearings that there have already been in this</p> <p>10 arbitration, already acquired a very substantial degree</p> <p>11 of familiarity with the background facts which have</p> <p>12 brought us here today. But the nevertheless, I will</p> <p>13 start with a little of the background. As we proceed,</p> <p>14 I will give you the bundle references for the documents</p> <p>15 I mention, but unless you would like to or</p> <p>16 I specifically invite you to, it shouldn't always be</p> <p>17 necessary to turn the documents up.</p> <p>18 Under the SPA or sale and purchase agreement entered</p> <p>19 into at the end of 2011 and amended and completed in</p> <p>20 mid-2012, NAE contracted to sell to Allied Energy Plc</p> <p>21 what is defined in the SPA as "the transferred</p> <p>22 interests". It might be helpful if at this point you</p> <p>23 have to hand bundle A1, which is the so-called core</p> <p>24 bundle, which contains a copy of the SPA and its</p> <p>25 amendment number 1. Indeed, if you care to turn to</p> <p style="text-align: center;">Page 6</p>	<p>1 acquired for petroleum operation by NAE during the</p> <p>2 course of the parties' co-operation.</p> <p>3 It is a matter of record that Allied has held the</p> <p>4 OML since 1992, and that, apart from a relatively brief</p> <p>5 period of co-ownership with BP and Statoil during which</p> <p>6 two exploratory wells were drilled, no serious</p> <p>7 development activity was undertaken until NAE came on</p> <p>8 board.</p> <p>9 It is also a matter of record that during its period</p> <p>10 as operating contractor NAE has expended approximately</p> <p>11 \$1.3 billion in capital and operating costs on the Oyo</p> <p>12 field.</p> <p>13 Now, to that operating cost, Allied has contributed</p> <p>14 precisely zero, with the exception of the amounts that</p> <p>15 it did pay towards the GSO, although not all of those,</p> <p>16 as we know, have in fact been paid and the balance of</p> <p>17 which forms part of NAE's claim in this arbitration.</p> <p>18 Moreover, of those operating costs, NAE paid</p> <p>19 approximately \$60 million to Allied in respect of</p> <p>20 services provided by them during the period of NAE's</p> <p>21 operatorship. And during its tenure as the contractor,</p> <p>22 NAE conducted significant further exploration</p> <p>23 activities, culminating in the drilling of two new</p> <p>24 wells, Oyo-5 and 6, of which Oyo-5 was the second</p> <p>25 longest horizontal open hole gravel pack well in the</p> <p style="text-align: center;">Page 8</p>

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<p>1 world at the commencement of production.</p> <p>2 So in return for the transferred interests under</p> <p>3 clause 4.1 of the SPA, which you'll find at page 15 in</p> <p>4 the same tab, Allied agreed to pay a total consideration</p> <p>5 of US\$250 million plus or minus certain adjustments, and</p> <p>6 of that \$250 million, 100 million was payable on</p> <p>7 completion with the remaining 150 payable in equal</p> <p>8 instalments during 2013 and 2014 to be secured as</p> <p>9 originally agreed by a bank guarantee. Meanwhile, the</p> <p>10 adjustments were to be addressed on completion on</p> <p>11 an estimated basis, with any positive estimated</p> <p>12 adjustment payable immediately, subject to</p> <p>13 a post-completion process for dealing with any</p> <p>14 additional payment or refund due either way once the</p> <p>15 final figures were known.</p> <p>16 But as the Tribunal knows, on 28 June 2012 at</p> <p>17 Allied's request the parties agreed certain amendments</p> <p>18 to the SPA, including, importantly for this arbitration,</p> <p>19 first, the bank guarantee in respect of the three</p> <p>20 instalments of \$50 million or the deferred payments was</p> <p>21 replaced with a guarantee in the sum of \$150 million</p> <p>22 from CAMAC International Ltd, the parent company of</p> <p>23 Allied and now the second respondent in this</p> <p>24 arbitration.</p> <p>25 The payment dates for the three instalments were</p> <p style="text-align: center;">Page 9</p>	<p>1 Turning, first, to the deferred payments. The only</p> <p>2 issue remaining for the Tribunal to determine is whether</p> <p>3 it has jurisdiction to make an award (a) as against</p> <p>4 Allied in respect of all of the deferred payments, and</p> <p>5 (b) as against CIL in respect of the third deferred</p> <p>6 payment, the first two having been addressed in your</p> <p>7 second partial award.</p> <p>8 Indeed, that is a question that you have effectively</p> <p>9 already determined in NAE's favour in relation to CIL's</p> <p>10 payment obligation under the guarantee, and there is</p> <p>11 nothing in Allied's evidence or its latest submissions</p> <p>12 which suggests that you should reach a different</p> <p>13 decision in relation to Allied's payment obligation</p> <p>14 under the SPA. On the contrary, as set out at 2.6 of</p> <p>15 our pre-hearing submissions, the position as regards</p> <p>16 Allied is even more straightforward.</p> <p>17 Now, in a last-ditch attempt to avoid its liability</p> <p>18 in its final formal re-amendment of its defence on</p> <p>19 22 April 2016, Allied ran a rather half-hearted double</p> <p>20 recovery argument. You don't need to turn it up, but</p> <p>21 the reference is bundle B1, tab 4, page 113 at</p> <p>22 paragraph 176. In fact it is so half-hearted that</p> <p>23 Allied seems to have already forgotten that it made it</p> <p>24 and makes no reference to it in its pre-hearing</p> <p>25 submissions.</p> <p style="text-align: center;">Page 11</p>
<p>1 deferred to 31 December 2013, 2014 and 2015, and instead</p> <p>2 of being paid on completion, the adjustments were to be</p> <p>3 paid in three equal instalments, the first due six days</p> <p>4 after completion and the second and third due at 60-day</p> <p>5 intervals thereafter. In addition, certain changes</p> <p>6 market share made to the provision which refers to the</p> <p>7 adjustment mechanism, and there is a dispute about what</p> <p>8 those changes mean.</p> <p>9 Finally, in light of the deferral of payment of the</p> <p>10 adjustments, a second guarantee was provided, this time</p> <p>11 in the sum of \$55 million, again by CAMAC International</p> <p>12 Ltd. Because, of course, by that time the parties knew</p> <p>13 that the adjustments would be positive, rather than</p> <p>14 negative, and they also knew the approximate amount of</p> <p>15 the adjustments, as NAE had sent its estimated adjusted</p> <p>16 statement to Allied on 21 June 2012, showing total</p> <p>17 adjustments of around 54.3 million, hence CIL's</p> <p>18 agreement to provide a guarantee with a ceiling of 55.</p> <p>19 With those amendments, the deal completed on the same</p> <p>20 day, 28 June 2012, and the first payment of \$100 million</p> <p>21 under the escrow account arrangements set out in</p> <p>22 clause 4.3 of the SPA was made.</p> <p>23 Unfortunately, the first payment was also the last.</p> <p>24 Not a further cent of the agreed consideration has been</p> <p>25 paid by Allied, and that is why we are here today.</p> <p style="text-align: center;">Page 10</p>	<p>1 If the argument is maintained, it is one that</p> <p>2 appears to confuse the concept of claiming the same debt</p> <p>3 as against two different parties with recovering the</p> <p>4 same debt against two different parties. As we set out</p> <p>5 at 2.8 of our pre-hearing submissions, there is no</p> <p>6 difficulty with the former.</p> <p>7 Now, one curious feature of the failure to make the</p> <p>8 deferred payments and, indeed, the adjustment payments</p> <p>9 is that Allied's own chairman, Dr Lawal, seems to be</p> <p>10 unclear about whether liability for the payments is</p> <p>11 denied or admitted and even whether they've been paid.</p> <p>12 In his witness statement in February 2016 he says that</p> <p>13 NAE's claims are denied. The reference there is</p> <p>14 bundle E1, tab 1, page 3 at paragraph 11.</p> <p>15 This is what he said in a different context on</p> <p>16 24 February 2014.</p> <p>17 (Video recording played to the arbitration)</p> <p>18 MR NESBITT: So here we have the chairman of Allied publicly</p> <p>19 representing that he's invested into the acquisition of</p> <p>20 ENI's interests in Oyo to the tune of in excess of</p> <p>21 \$250 million while, as we sit here today, more than two</p> <p>22 years since Dr Lawal made that statement, we know that</p> <p>23 he has most certainly not invested in excess of</p> <p>24 \$250 million to acquire NAE's interest, rather his</p> <p>25 investment is short by over \$200 million, of which over</p> <p style="text-align: center;">Page 12</p>

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<p>1 \$100 million was already overdue for payment at the time</p> <p>2 he made that statement.</p> <p>3 Be that as it may, moving on to the adjustments. As</p> <p>4 the Tribunal is already aware, the adjustments concern</p> <p>5 liabilities which NAE incurred on Allied's behalf during</p> <p>6 the operation of the Oyo field, in part in conducting</p> <p>7 the gas shut-off operation, or GSO, between</p> <p>8 December 2010 and February 2011 -- those are the</p> <p>9 so-called Oyo-5 GSO liabilities -- and in part during</p> <p>10 continued operations during the period from</p> <p>11 31 December 2011 up until completion on 28 June 2012,</p> <p>12 part of the so-called post-economic date liabilities,</p> <p>13 all of which Allied assumed liability for pursuant to</p> <p>14 clause 11.2 of the SPA.</p> <p>15 Now, there are four questions before you relevant to</p> <p>16 the adjustments, as set out in the parties' agreed list</p> <p>17 of issues, and I will address each of them briefly in</p> <p>18 turn.</p> <p>19 At this point, could I ask you to take out</p> <p>20 bundle G21 and turn to tab 566.</p> <p>21 Now, the first issue before you is whether this</p> <p>22 letter authored by Allied and bearing the date</p> <p>23 8 August 2012, if it was indeed a contractually</p> <p>24 compliant dispute notice for the purposes of clause 5.5</p> <p>25 of the SPA. Apologies, I should have also requested</p> <p style="text-align: center;">Page 13</p>	<p>1 Conversely the respondents' position on the issue of</p> <p>2 the delivery of the 8 August letter is remarkably</p> <p>3 unclear. They do not attempt to commit to when or even</p> <p>4 how the letter was delivered. They offer no more than</p> <p>5 uncorroborated witness evidence as to how what they say</p> <p>6 their normal practice ought to have been, which they say</p> <p>7 would have been by hand or by courier to NAE's Abuja</p> <p>8 office. The Tribunal will recall that the respondents</p> <p>9 were specifically asked at the 8 December 2014 hearing</p> <p>10 on the guarantee claims to search for documents</p> <p>11 evidencing delivery, and at the March CMC they expressly</p> <p>12 confirmed that they had enough time to search for</p> <p>13 relevant documents, and they produced nothing, in our</p> <p>14 submission, of any relevance.</p> <p>15 That seems very odd, frankly. If, as their normal</p> <p>16 practice would suggest, the letter was delivered by</p> <p>17 courier or by hand, and in particular if the courier was</p> <p>18 a reputable commercial courier, as is expressly required</p> <p>19 by clause 17.1 of the SPA, even if the relevant</p> <p>20 documents no longer exist in the files of Allied, it</p> <p>21 shouldn't be too difficult to ask the courier company to</p> <p>22 check its database for the relevant period, or if it was</p> <p>23 delivered by hand to seek witness testimony from the</p> <p>24 individual who delivered it. But they have come up with</p> <p>25 precisely nothing in terms of hard evidence and no</p> <p style="text-align: center;">Page 15</p>
<p>1 that you kindly keep open bundle A1 and this time turn</p> <p>2 to the second tab, which contains amendment number 1,</p> <p>3 and in particular we will be looking at page 65.</p> <p>4 So the issue is whether the 8 August letter was</p> <p>5 delivered to and received by NAE within the ten business</p> <p>6 days stipulated in clause 5.5, which you'll see at</p> <p>7 page 65 and the provisions of which the Tribunal will be</p> <p>8 already intimately familiar.</p> <p>9 If it wasn't delivered on time, we say that the</p> <p>10 respondents' defence to its liability to pay the sums</p> <p>11 due, insofar as they are to be treated pursuant to the</p> <p>12 adjustments mechanism, falls at the first hurdle.</p> <p>13 Now, in the SPA the parties agreed that it was for</p> <p>14 the party making delivery to prove the fact and time of</p> <p>15 delivery. The burden is on them. If you want to turn</p> <p>16 it up, but it isn't really necessary just now, you will</p> <p>17 find the relevant provisions at clause 17 of the SPA at</p> <p>18 page 35 of A1.</p> <p>19 Now, it is common ground that the dispute period</p> <p>20 expired on 9 August 2012. NAE's position is very clear,</p> <p>21 it says that it received the letter on 15 August, well</p> <p>22 after expiry of the period, and relies inter alia on the</p> <p>23 date stamp shown on the letter. That date stamp was</p> <p>24 applied by the secretary of the gentlemen to whom the</p> <p>25 letter was addressed, Mr Caropreso.</p> <p style="text-align: center;">Page 14</p>	<p>1 explanation has been provided as to what searches or</p> <p>2 enquiries were made.</p> <p>3 By contrast, despite being in the position of the</p> <p>4 recipient of the letter and, therefore, not required to</p> <p>5 bear the burden of proof of the date of delivery, NAE</p> <p>6 has, through its investigations, produced no less than</p> <p>7 five items of documentary evidence relevant to receipt</p> <p>8 of the letter, supported by witness evidence, and all</p> <p>9 indicating that the date of receipt stamped on the</p> <p>10 letter, 15 August 2012, was indeed the date on which it</p> <p>11 was first received by NAE.</p> <p>12 Now, in answer to that, the respondents don't go so</p> <p>13 far as to assert in terms that the letter would have</p> <p>14 been or even should have been received on the day it is</p> <p>15 dated, 8 August, or the day after, rather the</p> <p>16 respondents simply speculate about what NAE may or may</p> <p>17 not have done or of events or processes which may or may</p> <p>18 not have delayed delivery of the letter.</p> <p>19 But that is all really beside the point because it</p> <p>20 was the respondents' responsibility to ensure that the</p> <p>21 letter was delivered to NAE within the contractual</p> <p>22 deadline, and it is for the respondents to prove on</p> <p>23 a balance of probabilities that they delivered the</p> <p>24 letter to NAE by no later than 9 August, and they</p> <p>25 haven't done so. Indeed, in their most recent</p> <p style="text-align: center;">Page 16</p>

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<p>1 submission at 11.33, the respondents indulge in what can 2 only be described as further fanciful speculation about 3 the meaning of the internal emails within NAE, which 4 followed the receipt of the letter, and in what one can 5 only assume is something of a fit of desperation they go 6 so far as to contend that the internal correspondence 7 shows that NAE had concluded that the letter was 8 received in time but in this arbitration has 9 nevertheless decided to maintain the opposite. Of 10 course, that contention is not correct.</p> <p>11 Now, turning back to amendment number 1 to the SPA 12 and looking in particular at clause 8, which I already 13 mentioned but also clause 12, which is the redefinition 14 of the positive adjustment, the second issue before you 15 is whether, if the Tribunal determines that the letter 16 arrived on time, it did or did not amount in substance 17 to a dispute notice within the meaning of clause 5.5, 18 which says that:</p> <p>19 "The purchaser shall notify the seller of any item 20 or items that it wishes to dispute, together with the 21 reasons for such dispute and a list of proposed 22 adjustments."</p> <p>23 So you need to determine whether what this letter 24 contains falls within the meaning of clause 5.5 in 25 respect of either seven cost items which were not</p> <p style="text-align: center;">Page 17</p>	<p>1 that this has not yet been done it is premature for 2 Allied to comment or for the adjustment statement to be 3 final.</p> <p>4 Now, on any fair reading that is not a dispute. 5 Rather, it is the adoption of a position which was not 6 actually within the scope of possible reactions to the 7 final adjustment statement contemplated in the SPA. 8 Under the SPA, NAE could only send what it regarded as 9 a final adjustment statement. So to say it can't be 10 regarded as final is essentially meaningless. It was 11 the final adjustment statement. It wasn't a refusal to 12 pay either in full or in part.</p> <p>13 So if the Tribunal were to consider that the SPA as 14 amended does in some way require the parties to agree 15 some of the cost items, the only contractual process so 16 agreeing or not agreeing them was for NAE to include 17 them in the final adjustment statement. There was no 18 other process. And if Allied did not agree to them, for 19 whatever reason, it had to say so in terms and in time, 20 and it didn't do either of those things. So it follows 21 that the only possible and logical outcome of that 22 process is that the costs fall to be treated as agreed 23 under the SPA. Until the commencement of this 24 arbitration, as we'll see in a moment, there was no 25 suggestion from Allied that it took issue with that</p> <p style="text-align: center;">Page 19</p>
<p>1 expressly listed out in paragraph 1 of part 1, 2 Schedule 1 to the SPA, that's the clause 12 of amendment 3 number 1 that we're looking at, or in relation to the 12 4 items which were.</p> <p>5 I should say in fact the seven items are now reduced 6 to six, as the respondents' quantum expert has conceded 7 that what's referred to as maintenance/repairs, which is 8 a cost item in the sum of \$1.788 million, is the same 9 thing as item 6 in clause 12, referred to as "assistance 10 field service engineer". The reference for that to the 11 quantum experts' joint report is bundle E3, tab 4, 12 page 19.</p> <p>13 Now, we address the issue of the contents of the 14 8 August letter in some detail at 3.39 to 3.66 of our 15 pre-hearing submissions, and I am not going to repeat 16 all of those points. But the essence of our position is 17 that if the respondents had wanted to dispute any items 18 of cost, then they had to say so in terms as required by 19 clause 5.5. They had to say "We dispute this in that 20 amount for the following reasons and here is our propose 21 the list of adjustments". They did not do that, rather 22 in respect of the six cost items, although, of course, 23 the letter doesn't actually provide any list of specific 24 items, they simply say that those items were to be 25 agreed between the parties after completion, and given</p> <p style="text-align: center;">Page 18</p>	<p>1 logical outcome.</p> <p>2 Now, in respect of the remaining cost items, by 3 which I mean those that are expressly listed out in 4 clause 12 of the SPA amendment, the position is even 5 clearer. To the extent that the August letter could be 6 said to refer to them at all, it simply says:</p> <p>7 "Allied will require such additional time as is 8 reasonable for it to fairly and adequately comment on 9 the most recent adjustment statement and accordingly the 10 dispute period provided under the SPA needs to be 11 reasonably extended."</p> <p>12 So that, again, is not a dispute, it is a request 13 for an extension, a request for a variation of the SPA, 14 which had clearly provided that time was of the essence 15 for disputing the final adjustment statement. That 16 request was not granted by NAE.</p> <p>17 So we say that the letter was not in substance 18 a dispute notice.</p> <p>19 The third issue is whether NAE otherwise waived the 20 contractual requirements for a dispute notice. And, 21 again, we've addressed that issue in some detail at 3.71 22 to 3.84 of our pre-hearing submissions.</p> <p>23 Again, the essence of our position is that there is 24 nothing in any of the letters sent by NAE, either before 25 or after 15 August 2012, which was inconsistent with its</p> <p style="text-align: center;">Page 20</p>

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<p>1 position that the 8 August letter had been received out 2 of time or was inconsistent with the expectation that 3 Allied would meet its contractual deadlines and comply 4 with its obligation to pay the adjustments. Indeed, the 5 striking feature of that correspondence is not so much 6 what NAE said as what Allied didn't say. If, as is now 7 suggested, Allied genuinely believed that it had issued 8 a valid dispute notice in time, why did it not write 9 back to NAE to say so? The people behind Allied are not 10 slow to go into print when they believe that they have 11 a complaint. But Allied didn't do so, rather it did 12 what it always seems to do when it is faced with 13 a demand for payment, it sought more time to pay.</p> <p>14 If I could ask you to turn up bundle G22, which is 15 just the next one in the sequence, and turn to tab 600, 16 this is a letter sent by Mr Kamoru Lawal to Mr Casula, 17 the chairman of NAE, on 1 October 2012, so that's after 18 all of the various letters of demand for payment have 19 been sent by NAE.</p> <p>20 He says as follows -- I am looking here at about 21 four lines from the bottom of the first paragraph: 22 "To enable Allied to fund the new wells while 23 meeting its current OPEC's obligations, we request that 24 the payment of the positive adjustment be rescheduled 25 until December 31, 2016, such time being after the wells</p> <p style="text-align: right;">Page 21</p>	<p>1 letter validly disputed the entirety of the final 2 adjustment statement, which, of course, we say it 3 doesn't, nevertheless the Tribunal still has a job to do 4 in respect of the adjustments. The parties can't agree 5 on the meaning of their contract and, indeed, two 6 independent accountants, the parties' respective quantum 7 experts, Mr Taylor and Mr Good, they can't agree if they 8 are qualified to interpret the parties' contract for 9 them. You'll see that from their joint report, 10 bundle E3, tab 4, at page 91.</p> <p>11 They can only agree what the financial implications 12 would be if one or other of the different possible 13 interpretations of the contract is upheld. So it is 14 only in light of a determination as to the meaning of 15 the SPA that there could be a resolution to the 16 adjustment claims dispute, and there is no reason why 17 this Tribunal should not now make that determination.</p> <p>18 In any event, the Tribunal still retains 19 jurisdiction over NAE's alternative claim for these sums 20 under clause 11.2 of the SPA, to which no jurisdictional 21 objection has been taken. The value of the 11.2 22 indemnity claim is simply commensurately greater or 23 smaller, depending on whether the Tribunal determines it 24 has jurisdiction over none, some or all of the amounts 25 claimed as adjustments.</p> <p style="text-align: right;">Page 23</p>
<p>1 will have been drilled, additional production will have 2 come on stream and the deferred payments will have been 3 made."</p> <p>4 So no indication of any unhappiness with the amount 5 of the adjustments. You can put bundle G22 away.</p> <p>6 The final issue, if we're wrong in relation to the 7 six cost items, i.e. the Tribunal decides that Allied 8 did serve a valid dispute notice as regards those items 9 on time or that NAE otherwise somehow waived its rights 10 to insist upon compliance with the contract, is whether 11 the Tribunal nevertheless still has jurisdiction to 12 determine NAE's claim for those cost items insofar as 13 they are being treated under the adjustments mechanism.</p> <p>14 Well, if the Tribunal has jurisdiction to determine 15 NAE's claim in respect of all of the other cost items 16 set out in the final adjustment statement, which we say 17 plainly it does, as we say at 3.66 of our submissions, 18 it would be somewhat inconsistent with the principles 19 that the respondents have so enthusiastically embraced 20 in respect of the PSC claims for the Tribunal, one 21 seized of disputes regarding the final adjustments 22 statement, to stop in midstream and leave determination 23 of some of the cost items to accountants in a procedure 24 that has never been instigated by either side.</p> <p>25 Even if you were to consider that the 8 August</p> <p style="text-align: right;">Page 22</p>	<p>1 Now, Allied now says that that's not the effect of 2 the SPA as amended because the amounts claimed under the 3 indemnity provision were excluded from the entire scheme 4 of the SPA, and they say that at 15.14 of their 5 submissions.</p> <p>6 Now, we say that that is not a tenable reading of 7 clause 12 of amendment number 1, because that relates 8 expressly only to the positive adjustment and the 9 question of what items it should include and when they 10 should be paid. Essentially, the whole scheme of the 11 adjustments sets out a payment mechanism, whereby NAE 12 would have the comfort that it would receive payment of 13 those specific sums in accordance with the defined 14 schedule relating to costs arising within the wider 15 context of the post-economic date liabilities.</p> <p>16 It says nothing about clause 11.2 or the amounts to 17 be covered by the indemnity, and clause 11.2 was left 18 completely untouched by the amendment. There is no 19 witness evidence of any discussion about clause 11.2.</p> <p>20 And the post-economic date liabilities in Article 1.1 of 21 the SPA are expressly defined to include "any 22 liabilities incurred by the seller not taken into 23 account in full in the adjustments".</p> <p>24 So the respondent's jurisdictional argument comes to 25 nothing, whichever way you look at it. It is for the</p> <p style="text-align: right;">Page 24</p>

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<p>1 Tribunal to determine what the SPA means, the payment of</p> <p>2 what amounts NAE is entitled now by way of adjustments</p> <p>3 and to what amounts it is entitled under the clause 11.2</p> <p>4 indemnity.</p> <p>5 NAE has been out of its money wholly unjustifiably</p> <p>6 for a very long time and Allied needs to pay up.</p> <p>7 I am going to turn now to the counterclaims which</p> <p>8 the respondents have brought in this arbitration.</p> <p>9 We have said many times, and I repeat, that we</p> <p>10 believe that these counterclaims are no more than</p> <p>11 a tactic to string out this arbitration and to delay the</p> <p>12 recognition of Allied's liability for NAE's claims. In</p> <p>13 the post-SPA completion correspondence between the</p> <p>14 parties, with which the Tribunal is already familiar,</p> <p>15 there was no mention of any such claims. In fact, there</p> <p>16 was no mention at all until this arbitration was</p> <p>17 commenced by NAE. To some extent, bearing in mind that</p> <p>18 we have been in arbitration for some two and a half</p> <p>19 years now, that delay tactic has been quite successful</p> <p>20 but NAE believes that it needs to stop now.</p> <p>21 Now, as I mentioned at the recent CMC, there is</p> <p>22 a long list of reasons why the counterclaims don't begin</p> <p>23 to get off the ground. We've set them out in</p> <p>24 considerable detail in our submissions, so I will touch</p> <p>25 on them here only briefly and in a moment we will</p> <p style="text-align: center;">Page 25</p>	<p>1 aspect of the Oyo field from highly technical reservoir</p> <p>2 drilling and production information, to every contract</p> <p>3 entered into with every service provider.</p> <p>4 The other unusual feature of this relationship is</p> <p>5 that, financially speaking, it was completely one-sided.</p> <p>6 Allied never paid or contributed to a single cash call</p> <p>7 in the entire history of the parties' relationship, and</p> <p>8 the entirety of petroleum operations on the Oyo field</p> <p>9 were financed by NAE, as I said, to the tune of</p> <p>10 \$1.3 billion. However, in return for that zero</p> <p>11 contribution, and despite the lower than expected</p> <p>12 production from the field, Allied nonetheless lifted</p> <p>13 around \$150 million in crude oil produced from the Oyo</p> <p>14 field over the relevant period.</p> <p>15 So against that background, in my submission, it is</p> <p>16 not plausible to suppose that NAE either by agreement or</p> <p>17 inadvertently would have left itself exposed to the</p> <p>18 possibility of historical claims by Allied in respect of</p> <p>19 petroleum operations. And they didn't, which brings me</p> <p>20 back to the two there's hold questions.</p> <p>21 As the Tribunal will recall from the preliminary</p> <p>22 issues hearing back in July 2014, it is NAE's position</p> <p>23 that any possible liability for claims of the sort now</p> <p>24 being run by Allied is excluded by the express terms and</p> <p>25 effect of the deed of novation.</p> <p style="text-align: center;">Page 27</p>
<p>1 address you on two important threshold issues.</p> <p>2 But just by way of introduction, the counterclaims</p> <p>3 are essentially for breaches of the PSC entered into in</p> <p>4 July 2005 and eventually novated to Allied in June 2012.</p> <p>5 Now, it is clear from the documents and the evidence</p> <p>6 that this was not a typical operator/non-operator</p> <p>7 contractual relationship, where often the non-operator</p> <p>8 takes a bit of a back seat, pays his cash calls, and</p> <p>9 lifts crude oil cargoes in proportion to his</p> <p>10 participating interest. On the contrary, in this</p> <p>11 relationship, and however much the respondents now try</p> <p>12 to play down their role, the Allied parties and</p> <p>13 individuals wanted to be and were actively involved in</p> <p>14 petroleum operations with personnel on the ground in</p> <p>15 Nigeria, including on the FPSO, regularly making</p> <p>16 proposals and suggestions, reviewing and approving work</p> <p>17 programmes, budgets, and key operational decisions, and</p> <p>18 receiving information on a daily basis.</p> <p>19 That that is what the parties intended and wanted is</p> <p>20 also reflected in the terms of the co-operation</p> <p>21 agreement and the secondment agreement, which they</p> <p>22 entered into in January 2016, and the master services</p> <p>23 agreement of February 2009, as well as the integrated</p> <p>24 management team that they set up. Above all, they</p> <p>25 enjoined very detailed knowledge of pretty much every</p> <p style="text-align: center;">Page 26</p>	<p>1 Now, strangely, and perhaps in a sign of how keen</p> <p>2 they are to avoid the issue, the respondents -- and this</p> <p>3 appears even in their pre-hearing submission at 9.16 --</p> <p>4 continue to insist that the issue is already res</p> <p>5 judicata in their favour as a result of the Tribunal's</p> <p>6 first partial award. However, that was not one of the</p> <p>7 preliminary issues being treated at that time, and the</p> <p>8 majority of the Tribunal, you will recall, expressly</p> <p>9 stated that it was not determining that point. If you</p> <p>10 need the reference, it is hearing bundle C2 at tab 5,</p> <p>11 page 41, paragraph 133.</p> <p>12 Now, we maintain our position that the effect of the</p> <p>13 deed of novation was to exclude NAE's historic liability</p> <p>14 to Allied in respect of petroleum operations, and we</p> <p>15 adopt our submissions that we made for the preliminary</p> <p>16 issues hearing on that point. For reference you can</p> <p>17 find those at bundle C1, tab 1, page 6 and tab 4,</p> <p>18 page 94.</p> <p>19 We say that its terms and meaning are clear. The</p> <p>20 respondents say in their pre-hearing submissions -- this</p> <p>21 is at 9/16 -- that the deed of novation expressly</p> <p>22 preserves Allied's rights against NAE, but they don't</p> <p>23 explain how it does that. In fact, the deed of novation</p> <p>24 states in terms that Allied will assume the liabilities</p> <p>25 and perform the obligations under the PSC in place of</p> <p style="text-align: center;">Page 28</p>

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<p>1 NAE. It is difficult to imagine how you can assume</p> <p>2 something which doesn't yet exist, and so that must mean</p> <p>3 that Allied was assuming past as well as future</p> <p>4 liabilities, and in that sense NAE's position is on all</p> <p>5 fours with the views expressed by Mr Boswood QC in his</p> <p>6 dissenting opinion in October 2014, which is in</p> <p>7 bundle C2, tab 6, at page 73.</p> <p>8 But even if the Tribunal disagrees with that</p> <p>9 interpretation, such that it considers that the correct</p> <p>10 construction of the deed of novation is that all</p> <p>11 liabilities under the PSC incurred up to the economic</p> <p>12 date stayed with NAE, now that, following receipt of</p> <p>13 Mr Taylor's quantum report, we have seen for the first</p> <p>14 time how the respondents in fact approach the different</p> <p>15 elements of the quantification of their claims, we know</p> <p>16 that those claims are either legally impossible or are</p> <p>17 brought in respect of the alleged losses of an entity</p> <p>18 for whom no claim has ever been asserted in this</p> <p>19 arbitration, either directly or via the supposed agency</p> <p>20 of Allied.</p> <p>21 At this point, I am going to give you some relief</p> <p>22 from me and handover to Mr Shoesmith, who is going to</p> <p>23 expand on that with the help of a short presentation.</p> <p>24 MR SHOESMITH: Just before I begin -- thank you -- I wonder</p> <p>25 whether we might need a little more relief, given it is</p> <p style="text-align: center;">Page 29</p>	<p>1 them -- please tell me if that's the case -- instead,</p> <p>2 I have a few slides to demonstrate what I am saying.</p> <p>3 Before we begin with those, a few words as to the</p> <p>4 nature of the counterclaims in general. On the</p> <p>5 respondents' case, all claims concern only the Oyo</p> <p>6 field. The Tribunal will have seen the reference to</p> <p>7 a partial assignment of the respondents' interest</p> <p>8 dividing the Oyo and the non-Oyo interests for a short</p> <p>9 period in 2010 and 2011. But it's common ground that</p> <p>10 non-Oyo part is not relevant to this arbitration.</p> <p>11 Second, all claims derive from the parties'</p> <p>12 participating interests under the PSC. It is that</p> <p>13 contract alone that confers relevant rights and</p> <p>14 interests on the parties, including the right to assert</p> <p>15 any of the potential counterclaims.</p> <p>16 There are some loose references in the respondents'</p> <p>17 pleadings to a diminution in value of the OML's, but</p> <p>18 Mr Taylor's report makes clear that what he calculates</p> <p>19 and what is apparently claimed for is the effect of</p> <p>20 NAE's alleged breaches on the value of the beneficial</p> <p>21 interests under the PSC.</p> <p>22 Third, save in respect of a gas flaring fine, which</p> <p>23 is valued about \$1.5 million, I am not going to touch on</p> <p>24 that in this part of the presentation, all claims derive</p> <p>25 from alleged breaches of a single provision of the PSC,</p> <p style="text-align: center;">Page 31</p>
<p>1 20 past 11. I have about 20 minutes' worth of material.</p> <p>2 I wonder whether you would like to hear me before or</p> <p>3 after the break?</p> <p>4 THE CHAIRMAN: Court reporters, would you like a break now?</p> <p>5 So we will resume in 15 minutes.</p> <p>6 MR SHOESMITH: Thank you.</p> <p>7 (11.22 am)</p> <p>8 (A short break)</p> <p>9 (11.43 am)</p> <p>10 THE CHAIRMAN: Mr Shoesmith.</p> <p>11 Opening submissions by MR SHOESMITH</p> <p>12 MR SHOESMITH: Thank you, Mr Chairman.</p> <p>13 So, as Mr Nesbitt touched upon before the break, at</p> <p>14 sections 7 to 11 of NAE's pre-hearing submissions the</p> <p>15 Tribunal will have seen that questions have arisen</p> <p>16 following the submission of the respondents' quantum</p> <p>17 experts' evidence as to the nature and viability of the</p> <p>18 counterclaims. So I propose to provide the Tribunal</p> <p>19 with an overview of the circumstances relevant to that</p> <p>20 issue and the consequences of it having arisen at such</p> <p>21 an advanced stage in the arbitration, at four months</p> <p>22 after the close of pleadings.</p> <p>23 Like Mr Nesbitt, I will give you bundle references</p> <p>24 as I go along, but I don't propose to take you to any</p> <p>25 documents, unless you would specifically like to see</p> <p style="text-align: center;">Page 30</p>	<p>1 and that's Article 7.1(a). Mr Nesbitt will talk about</p> <p>2 that in more detail once I am finished.</p> <p>3 So moving on to my slides, the respondents'</p> <p>4 collective potential counterclaims can be divided</p> <p>5 roughly through three limbs. I've have to apologise,</p> <p>6 I can't quite keep up with the changes of position. As</p> <p>7 of about 7.30 last night this was the position. It's</p> <p>8 now clearly going to change again on the respondents'</p> <p>9 side. But three limbs.</p> <p>10 First, in respect of Allied's own loss. That's</p> <p>11 attributable to what is called the NAE beneficial</p> <p>12 interest. That's 40 per cent participating interest in</p> <p>13 the PSC that Allied that acquired from NAE on</p> <p>14 28 June 2012, and that's currently, I have to say now,</p> <p>15 quantified based on Mr Filippi's reservoir model at</p> <p>16 \$8 million approximately, I don't think that will</p> <p>17 change, and based on Dr Moy's latest model until last</p> <p>18 night approximately \$380 million.</p> <p>19 Second, in respect of the Allied CINL beneficial</p> <p>20 interest for the period until the assignment of that</p> <p>21 interest to CPL, that was on 7 April 2011. Though</p> <p>22 notionally a claim is said to accrue to Allied and CINL</p> <p>23 in that respect, the parties' experts agree that Allied</p> <p>24 and CINL suffered no loss in respect of that beneficial</p> <p>25 interest in that period. So the second bundle of</p> <p style="text-align: center;">Page 32</p>

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<p>1 counterclaims is not really a claim at all.</p> <p>2 Third, perhaps surprisingly instead, the</p> <p>3 respondents, through the eyes of their expert at least,</p> <p>4 seem to claim for losses allegedly suffered by CPL, the</p> <p>5 affiliate that acquired the Allied CINL beneficial</p> <p>6 interest in April 2010. Those losses, if they are</p> <p>7 relevant, are quantified at either approximately</p> <p>8 2 million, based on Mr Filippi's model, or assuming it</p> <p>9 remains the same somewhere in the region of 123 million,</p> <p>10 based on Dr Moy's model.</p> <p>11 Now, the respondents arrive at that three-pronged</p> <p>12 counterclaim through an analysis, and I would say</p> <p>13 a mis-analysis perhaps of various novations of the</p> <p>14 beneficial interests that occurred over the period since</p> <p>15 2005. Let's start in 2005, then.</p> <p>16 At the outset of the parties' relationship, I've</p> <p>17 a few pictures, as their name suggests there was the</p> <p>18 40 per cent NAE beneficial interest, that's there on the</p> <p>19 left, being held up by a little NAE man, and</p> <p>20 a cumulative 60 per cent applied Allied/CAMAC CINL,</p> <p>21 let's call it beneficial interests split 57.5 per cent</p> <p>22 in favour of Allied, 2.5 per cent for CINL.</p> <p>23 There are no changes in the parties' beneficial</p> <p>24 interests before the causes of action complained of</p> <p>25 began to accrue. If they accrued, it was as follows.</p> <p style="text-align: center;">Page 33</p>	<p>1 regard, again, we're not entirely clear, that appears to</p> <p>2 be asserted of as of at least February 2010, and that's</p> <p>3 paragraph 6.7 of the respondents' pre-hearing</p> <p>4 submissions.</p> <p>5 Then there are two aspects of the Oyo-5 GSO, the gas</p> <p>6 shut-off operation, namely delay in its planning.</p> <p>7 Again, we're not clear whether a separate damages claim</p> <p>8 is now maintained in that respect, but if it is, the</p> <p>9 alleged breach seems to have been between mid-January</p> <p>10 and coincidentally 7 April 2010. That's paragraph 5.10</p> <p>11 of the respondents' pre-hearing submissions.</p> <p>12 Finally, in respect of obtaining packers, as they</p> <p>13 are called, for the GSO. That failure is not really</p> <p>14 dwelled upon at all in the respondents' pre-hearing</p> <p>15 submissions. So, again, there is a bit of doubt about</p> <p>16 that.</p> <p>17 In early 2010, therefore, the potential claims of</p> <p>18 the parties can only have been as shown here. Looking</p> <p>19 at the Allied/CINL side first, as indicated just now, it</p> <p>20 is not certain whether breaches are alleged to have</p> <p>21 occurred prior to the novation date in respect of</p> <p>22 production, gas flaring, delay and packers. So I have</p> <p>23 shown those on this slide as potential claims. They</p> <p>24 have a question mark in the appropriate box of bundle</p> <p>25 claims for each party.</p> <p style="text-align: center;">Page 35</p>
<p>1 In respect of cementing of the 958 section of the</p> <p>2 Oyo-5 well at some point between July and October 2009</p> <p>3 we see that now from the respondents' pre-hearing</p> <p>4 submissions, paragraph 3.9 onwards.</p> <p>5 In respect of beaming up of that same well, that's</p> <p>6 to say getting ready for production, accruing between</p> <p>7 October and December 2009, we see that from</p> <p>8 paragraph 4.4 of the respondents' pre-hearing</p> <p>9 submissions. (Pause).</p> <p>10 If the respondents establish breach in respect of</p> <p>11 the cementing and beaming up claims, there is no dispute</p> <p>12 that those claims accrued before the first change in</p> <p>13 ownership of the beneficial interests. That was in</p> <p>14 April 2010.</p> <p>15 But it also seems likely -- you'll see on the slide</p> <p>16 there are some more potential claims. It's not entirely</p> <p>17 clear, however, from the respondents' case that further</p> <p>18 causes of action would have accrued in respect of</p> <p>19 production from the Oyo-5 well, and that's between</p> <p>20 December 2009 and April 2010. Looking at the</p> <p>21 pre-hearing submissions, it seems like a breach is</p> <p>22 asserted as of December 2009. That's paragraphs 4.4 and</p> <p>23 4.30 of the respondents' submissions.</p> <p>24 In respect of gas flaring, that's in the same</p> <p>25 period. If a separate damages claim is made in that</p> <p style="text-align: center;">Page 34</p>	<p>1 On the NAE side, as I will come on to and as</p> <p>2 Mr Nesbitt alluded to already, there is even more</p> <p>3 uncertainty. There is a dispute between the parties as</p> <p>4 to whether NAE could ever have any claim for breach of</p> <p>5 contract against itself. NAE says that is simply not</p> <p>6 possible. But it is alleged those notional claims are</p> <p>7 allocated on the slide along for everything else for</p> <p>8 demonstrable purposes. But I have put question marks in</p> <p>9 those boxes as well, just so you understand what that is</p> <p>10 about.</p> <p>11 Whatever the viability of the counterclaims</p> <p>12 allocated, for present purposes it's what happened next</p> <p>13 that is important, and that's the first deed of</p> <p>14 novation, as we're calling it.</p> <p>15 The parties disagree as to what was novated to CPL.</p> <p>16 The critical provision shown here in relevant part is</p> <p>17 clause 2.1. So with effect from and including novation</p> <p>18 date Allied and CINL assigned to CPL all of their</p> <p>19 respective rights, liabilities, duties, covenants,</p> <p>20 undertakings, warranties, other obligations contained in</p> <p>21 the PSC in respect of the Oyo field only, remember</p> <p>22 that's split, including all claims and demands in</p> <p>23 respect of the Oyo field arising in connection with the</p> <p>24 PSC. You have bundle reference there.</p> <p>25 NAE's case is that that wording had the effect of</p> <p style="text-align: center;">Page 36</p>

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<p>1 passing to CPL all of the claims shown on the previous</p> <p>2 slide as having, on the respondents' case, accrued to</p> <p>3 Allied and/or CINL. In NAE's submission that is the</p> <p>4 only possible reading of clause 2.1 because Allied and</p> <p>5 CINL would only ever have the right to claims that had</p> <p>6 already accrued as of the novation date. They could</p> <p>7 never have a right to claims accruing thereafter because</p> <p>8 all rights had passed by agreement to CPL. It's the</p> <p>9 same point that Mr Nesbitt made earlier as regards the</p> <p>10 three deed of novation, and I will come back to that.</p> <p>11 The respondents' reading of that provision that only</p> <p>12 future claims passed, renders redundant the final words</p> <p>13 regarding claims. They are effectively read out of that</p> <p>14 provision.</p> <p>15 On 7 April 2010, in NAE's world view, the picture</p> <p>16 therefore changes considerably. The only parties who</p> <p>17 could conceivably have claims under the PSC at that</p> <p>18 stage in respect of any matters occurred prior to the</p> <p>19 novation date are NAE, but I've already said that leads</p> <p>20 to considerable doubt as to that, and CPL, CPL having</p> <p>21 acquired all of Allied and CINL's rights, including</p> <p>22 expressly all claims. Allied and CINL, you will see on</p> <p>23 the slide, have none.</p> <p>24 Of course, that's of very little practical</p> <p>25 significance now because we know the quantum experts</p> <p style="text-align: center;">Page 37</p>	<p>1 irrespective of whether that's in Allied or CINL's hands</p> <p>2 or in CPL's hands, the position is the same. The</p> <p>3 experts agree there is no loss.</p> <p>4 LORD HOFFMANN: Yes.</p> <p>5 MR SHOESMITH: So I think we're here. I've shown this on</p> <p>6 the slide by a little greyed-out no claim sign, so you</p> <p>7 can see that that's what happened.</p> <p>8 Over more or less the next two years, from</p> <p>9 April 2010, the allocation of beneficial interest under</p> <p>10 the PSC remained the same in all relevant respects.</p> <p>11 I say "relevant" because, as I've explained, there is</p> <p>12 there is non-Oyo element, and that's rejoining the Oyo</p> <p>13 element in the intervening period, but no claims arise</p> <p>14 in respect of that.</p> <p>15 So in that period of two years, the respondents</p> <p>16 suggest that further claims arose or may have arisen if</p> <p>17 they'd not already accrued prior to April 2010. That's</p> <p>18 by operation of Nigerian law, the claim accrues as at</p> <p>19 the date of breach, further damages do not give rise to</p> <p>20 a separate free-standing claim.</p> <p>21 So NAE and/or CPL may have gained additional claims</p> <p>22 in respect of production, gas flaring, delay and</p> <p>23 packers. Those are the alternative claims, if they</p> <p>24 haven't already accrued.</p> <p>25 In respect of the outcome of the GSO and the</p> <p style="text-align: center;">Page 39</p>
<p>1 agree that any such claims resulted in no loss in the</p> <p>2 period prior to 7 April 2010.</p> <p>3 LORD HOFFMANN: Sorry, say that part again?</p> <p>4 MR SHOESMITH: The parties' quantum experts agree that the</p> <p>5 parties suffered no loss, there was no loss incurred for</p> <p>6 matters occurring prior to 7 April 2010.</p> <p>7 LORD HOFFMANN: Right.</p> <p>8 MR SHOESMITH: So it doesn't really matter who held them,</p> <p>9 whether it is Allied and CINL or whether it is CPL.</p> <p>10 Even a claim by CPL in respect of such matters is not</p> <p>11 viable. If you recall, on my original slides going</p> <p>12 through the quantum experts' table, it is this one. It</p> <p>13 is categorised as Allied's loss in respect of the</p> <p>14 Allied/CINL beneficial interest. The next line down</p> <p>15 underneath the circling, loss between 5 December 2009</p> <p>16 and 7 April 2010. Reading across, you'll see these are</p> <p>17 negative figures here --</p> <p>18 LORD HOFFMANN: Yes.</p> <p>19 MR SHOESMITH: -- they are a negative loss. They are no</p> <p>20 loss at all.</p> <p>21 LORD HOFFMANN: After 5 December 2009 is --</p> <p>22 MR SHOESMITH: From when the respondents say their cause of</p> <p>23 action accrued, when the losses started to be incurred,</p> <p>24 until the disposal of the relevant interest on the</p> <p>25 7 April 2010. So obviously for that period,</p> <p style="text-align: center;">Page 38</p>	<p>1 alternative procedures adopted, the relevant period for</p> <p>2 those, December 2010 to February 2011, are the dates of</p> <p>3 the GSO, so it is not contentious that they can only</p> <p>4 have arisen after the assignment.</p> <p>5 Again, in the hope that it aids understanding, I've</p> <p>6 put this up visually here, or at least I've tried.</p> <p>7 CPL's pool of potential claims on the right has expanded</p> <p>8 but, as I've said, pre-and post-novation claims are</p> <p>9 alternative claims not cumulative claims, so they are</p> <p>10 all shown here with a question mark.</p> <p>11 Allied and CINL continued to have no claims</p> <p>12 whatsoever against NAE under the PSC.</p> <p>13 Of course, it remains NAE's position that</p> <p>14 post-novation claims against itself are as impossible to</p> <p>15 as pre-novation claims. It can't claim against itself,</p> <p>16 but that's in dispute, and so, again, they are shown on</p> <p>17 the slide just so that you can see what that looks like</p> <p>18 on the respondents' case.</p> <p>19 The NAE dispute becomes relevant at this stage.</p> <p>20 We're now at 28 June 2012 because NAE and Allied</p> <p>21 disagreed as to the effect of the third deed of</p> <p>22 novation, which they executed on that date. The</p> <p>23 relevant wording as before coincidentally perhaps is in</p> <p>24 clause 2.1. That reads:</p> <p>25 "The parties severally agree that with effect from</p> <p style="text-align: center;">Page 40</p>

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<p>1 completion as to the terms defined in the SPA, NAE shall</p> <p>2 cease to be a party to the PSC in respect of the</p> <p>3 transferred interest and Allied shall remain a party to</p> <p>4 the PSC and all agreements deriving therefrom and shall</p> <p>5 assume the liabilities, perform the obligations and be</p> <p>6 entitled to all the rights and benefits therein in the</p> <p>7 place of NAE."</p> <p>8 NAE says that this wording has the effect of</p> <p>9 assigning to Allied the entirety of its beneficial</p> <p>10 interest in the PSC from the beginning. That is the</p> <p>11 only sensible reading, as we've put in our submissions,</p> <p>12 of liabilities, which are separate from obligations in</p> <p>13 this clause.</p> <p>14 Like claims under the first deed of novation, the</p> <p>15 liabilities referred to must have already arisen.</p> <p>16 Future liabilities accrue to Allied as a result of the</p> <p>17 assumption of all obligations.</p> <p>18 Consistent with that, NAE also says that Allied</p> <p>19 acquired all rights from the beginning of their</p> <p>20 relationship, including any right that NAE may have had</p> <p>21 to claim in respect of its interest under the PSC. But</p> <p>22 we know a claim against itself is not possible. There</p> <p>23 is no such right.</p> <p>24 Allied's position is less clear. Initially, it said</p> <p>25 clause 2.1 was of prospective effect only. We refer to</p> <p style="text-align: center;">Page 41</p>	<p>1 potential counter-claimants against NAE, Allied, if it</p> <p>2 acquired NAE's impossible claim against itself -- you</p> <p>3 will see I have put an extra large question mark on</p> <p>4 that -- and CPL, having acquired potential claims</p> <p>5 pursuant to the first deed of novation. Those were</p> <p>6 untouched by the third deed of novation.</p> <p>7 There never was and, it is now common ground, there</p> <p>8 never could have been any viable claim by CINL against</p> <p>9 NAE. The only viable claim it might have had on the</p> <p>10 respondents' interpretation of the first deed of</p> <p>11 novation, even in their world view, is a claim that all</p> <p>12 parties agree resulted in no loss.</p> <p>13 That is the position in which the parties found</p> <p>14 themselves on the date when the counterclaims were</p> <p>15 eventually brought, in October 2013. No further causes</p> <p>16 of action, I have put on the slide, are said to have</p> <p>17 accrued since 28 June 2012. Despite that, rather than</p> <p>18 bringing claims on behalf of itself, Allied, were any</p> <p>19 such claims possible and CPL, Allied expressly commenced</p> <p>20 arbitration only in respect of itself and CINL. You can</p> <p>21 see that from the response. That's at bundle B1, tab 2.</p> <p>22 We don't need to go there now.</p> <p>23 What is more, it has at all points up to and</p> <p>24 including the submission of its further amended defence</p> <p>25 and counterclaim -- that was just a couple of months ago</p> <p style="text-align: center;">Page 43</p>
<p>1 at in our pre-hearing submissions at paragraph 11.45(b),</p> <p>2 but the more important reference perhaps is to Mr Wade's</p> <p>3 submissions at the preliminary issues hearing, and you</p> <p>4 can find those in bundle C1, tab 4, page 166, starting</p> <p>5 at line 5. We don't need to go there now.</p> <p>6 Following Mr Taylor's report, however, recognising</p> <p>7 that it has no viable claim against NAE by operation of</p> <p>8 the first deed of novation, Allied's position now</p> <p>9 appears to be that clause 2.1 of the third deed of</p> <p>10 novation has the curious result that Allied acquired all</p> <p>11 of NAE's rights in the NAE beneficial interest from the</p> <p>12 beginning. That's consistent with NAE's reading, so</p> <p>13 that would include NAE's notional claim against itself,</p> <p>14 were that possible. But at the same time, the</p> <p>15 respondents' case is that Allied left the corresponding</p> <p>16 liability for past breaches with NAE.</p> <p>17 Now, not only is that not possible to see on the</p> <p>18 face of this contract, which deals with rights and</p> <p>19 liabilities together, but it is a legal impossibility.</p> <p>20 Whether as a matter of English law or Nigerian law, no</p> <p>21 party can have a cause of action against itself, nor can</p> <p>22 it assign that cause of action to another. But the case</p> <p>23 is advanced against NAE in those terms, and that</p> <p>24 assignment is, therefore, represented here.</p> <p>25 On or after 28 June 2012 there are just two</p> <p style="text-align: center;">Page 42</p>	<p>1 on 22 April 2016 -- claimed only in respect of losses</p> <p>2 allegedly suffered by Allied and by CINL. The bundle</p> <p>3 reference B1, tab 4, page 117.</p> <p>4 There is no indication on the face of the pleadings,</p> <p>5 despite their repeating formulation, of any intention to</p> <p>6 bring any claim on behalf of CPL. What the respondents</p> <p>7 say they want, and have consistently said they want, is</p> <p>8 for NAE to indemnify Allied and its affiliates but</p> <p>9 crucially and expressly CINL in this case. You'll see</p> <p>10 that from the further amended defence and counterclaim,</p> <p>11 B1, tab 4, page 92, and the paragraph reference, 123.1.</p> <p>12 The respondents could not have been more clear as to</p> <p>13 what they intended to do. Nor has anything occurred</p> <p>14 since the counterclaims were brought to change the</p> <p>15 position as between the parties. You'll see I have put</p> <p>16 up here a reference to the 2013 transfer agreement.</p> <p>17 That purported to reserve the respondents' right to</p> <p>18 claim against NAE, but we've seen there were no such</p> <p>19 claims in respect of the Allied CINL beneficial</p> <p>20 interest. They gave them away. And no claims accrued</p> <p>21 to Allied in respect of the NAE beneficial interest</p> <p>22 because they are legally impossible. On their original</p> <p>23 view, they never passed in the first place but if they</p> <p>24 did pass, they don't go anywhere.</p> <p>25 The inclusion of reference to alleged losses of CPL</p> <p style="text-align: center;">Page 44</p>

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<p>1 in the respondents' expert evidence clearly acknowledges</p> <p>2 the fact that CPL, rather than Allied, or CINL is the</p> <p>3 proper counter-claimant. But that reference does not</p> <p>4 amount to formally commencing a claim. Nor is it</p> <p>5 sufficient that in the request for relief submitted with</p> <p>6 the respondents' pre-hearing submissions just last</p> <p>7 Friday that the respondents now formally seek an award</p> <p>8 of damages and declarations in respect of Allied, CINL,</p> <p>9 and their affiliates. The reference to the pre-hearing</p> <p>10 submissions there are paragraphs 17.2.6, 17.2.7, 17.3.1,</p> <p>11 17.3.2.</p> <p>12 No claim has ever been brought on behalf of CPL. It</p> <p>13 is to this day a non-party to the arbitration. In fact,</p> <p>14 the respondents' confusion in this regard is still</p> <p>15 apparent in their pre-hearing submissions. They</p> <p>16 continue to refer at paragraph 2.7.1 to NAE's liability</p> <p>17 to indemnify Allied and its affiliates, expressly CINL</p> <p>18 in this case.</p> <p>19 The importance of CPL's absence is clear. The</p> <p>20 period provided by the Nigerian Limitation Act for CPL's</p> <p>21 claims under the PSC has in all material respects</p> <p>22 already expired. The period as in English law is six</p> <p>23 years from breach. That's section 7 of the</p> <p>24 Limitation Act, which you'll see at bundle H6, tab 1,</p> <p>25 page 1.</p> <p style="text-align: right;">Page 45</p>	<p>1 Going back to my original slides, that table, the</p> <p>2 largest claim by value, that's nearly \$400 million on</p> <p>3 the respondents' best case, subject to any changes they</p> <p>4 may now like to make, that claim never came into</p> <p>5 existence in the first place. That's legally</p> <p>6 impossible. It never vested in Allied because it is</p> <p>7 impossible for it to have been assigned, if it did</p> <p>8 exist. Alternatively, based on the wording of the third</p> <p>9 deed of novation, clause 2.1, Allied took liability for</p> <p>10 it, together with the right to claim. So it has its own</p> <p>11 legally impossible claim against itself, and it goes no</p> <p>12 further than that.</p> <p>13 CPL's claim, which is valued at around 100 million</p> <p>14 currently on the respondents' best case, subject to</p> <p>15 change, was not brought before the expiry of the</p> <p>16 applicable statutory limitation period. It has not been</p> <p>17 brought now. Not only are the respondents entitled to</p> <p>18 no remedy in respect of it, but there is no remedy now</p> <p>19 available to CPL. If any claim remains at all -- it's</p> <p>20 NAE's case that it doesn't -- that claim in respect of</p> <p>21 the period up to 7 April 2010, based on the Allied/CINL</p> <p>22 beneficial interest, it is agreed resulted in no loss.</p> <p>23 For those reasons, sir, it is NAE's contention in</p> <p>24 this arbitration that it has no case to answer.</p> <p>25 Mr Nesbitt is going to explain, unless you have any</p> <p style="text-align: right;">Page 47</p>
<p>1 So CPL's potential cementing claim, for example,</p> <p>2 expired in or around July or October 2015 at a time when</p> <p>3 the pleadings clearly show that claim had not been</p> <p>4 brought. The bean-up production claim, they seem to</p> <p>5 come together, appears to have become statute-barred in</p> <p>6 around December 2015. Again, long before any intention</p> <p>7 was demonstrated to bring it.</p> <p>8 So the two principal planks of the counterclaims</p> <p>9 cannot be brought either by CPL, who is not here today,</p> <p>10 and is statute-barred anyway, or Allied or CINL, who</p> <p>11 either the disposed of or never acquired the relevant</p> <p>12 rights to claim.</p> <p>13 Clearly, any other pre-novation claims -- remember</p> <p>14 that bundle with a question mark on them, if they are</p> <p>15 maintained there is some doubt in that respect -- also</p> <p>16 ran up against the statute bar on 6 April 2016. That's</p> <p>17 before the further amended statement of defence and</p> <p>18 counterclaim, before the pre-hearing submissions. Still</p> <p>19 no claim evident on the face of the pleadings.</p> <p>20 What is left, in particular in respect of the GSO,</p> <p>21 the respondents from their pre-hearing submissions now</p> <p>22 appear to accept does not form the basis of any viable</p> <p>23 claim, even if it were notionally possible. So once</p> <p>24 that is particularised, it is apparent that there are no</p> <p>25 viable counter-claimant against NAE.</p> <p style="text-align: right;">Page 46</p>	<p>1 questions for me, how we arrive at the same conclusion</p> <p>2 looking at the substance.</p> <p>3 Further opening submissions by MR NESBITT</p> <p>4 MR NESBITT: Tempting though it is to simply stop there,</p> <p>5 nevertheless we are obliged to proceed to address the</p> <p>6 balance of the issues raised by the respondents in their</p> <p>7 supposed counterclaims.</p> <p>8 At this juncture, it would be helpful if you could</p> <p>9 have to hand the PSC, which you'll find still in</p> <p>10 bundle A1 at tab 5.</p> <p>11 MR LEW: We need to keep out volume G21?</p> <p>12 MR NESBITT: No, you can put that away, sir.</p> <p>13 You may wish to turn to page 136, where you will see</p> <p>14 the contractual provision which has a starring role in</p> <p>15 this arbitration, according to the respondents, that is</p> <p>16 Article 7.1(a). That is the sole contractual term of</p> <p>17 the PSC of which breach is alleged.</p> <p>18 That provision required NAE to:</p> <p>19 "Prepare work programmes and budgets and carry out</p> <p>20 approved work programmes in accordance with</p> <p>21 internationally acceptable petroleum industry practices</p> <p>22 and standards with the objective of avoiding waste and</p> <p>23 obtaining maximum ultimate recovery of crude oil at</p> <p>24 minimum cost."</p> <p>25 LORD HOFFMANN: Sorry, what page did you say?</p> <p style="text-align: right;">Page 48</p>

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<p>1 MR NESBITT: Page 136 of the bundle. It is page 13 of the 2 contract itself. 3 LORD HOFFMANN: That's what I wanted. Thank you. 4 MR NESBITT: As set out in our submissions, the respondents' 5 position on what Article 7.1(a) actually means, and more 6 particularly what "internationally acceptable petroleum 7 industry practices and standards" are, which I will 8 hence forth referred as to "standards" for short, has 9 continually shifted ranging from what I think was an 10 attempt to apply what we would say is the correct 11 interpretation of Article 7.1(a) by actually identifying 12 the standards they say are the relevant ones, and they 13 did that in their reply to defence to counterclaim -- 14 which you don't need to turn up, but the reference is 15 B2, tab 7, page 11, at paragraphs 28 to 30 -- to 16 pleading, albeit in their expert evidence, a completely 17 different standard to the one articulated in the PSC 18 based upon the hypothetical views of a hypothetical 19 international oil company. Indeed, in their pre-hearing 20 submissions the respondents go as far as -- and this is 21 at 1.14 of their pre-hearing submissions -- to criticise 22 the claimant's experts for being so foolish as to 23 consider the actual language of the clause in expressing 24 their views on what it means. 25 They also, one page back in their pre-hearing</p> <p style="text-align: center;">Page 49</p>	<p>1 implied because it doesn't need to be. Every oil 2 industry employee knows that petroleum operations are 3 covered by a plethora of published practices and 4 standards which have been peer-reviewed and adopted. 5 The parties to this agreement were operating in the 6 deep offshore environment, which was in 2005, and still 7 is today, a particularly hostile, challenging and 8 difficult environment. It is not surprising that in 9 those circumstances an operator would not be willing to 10 agree to operate to anything other than a very clearly 11 defined standard, and that is the bargain that the 12 parties struck. 13 LORD HOFFMANN: Well, you say "clearly defined", but the 14 word "acceptable" suggests what the medical negligence 15 people would call the Bolam test, doesn't it? That is, 16 if you can find a responsible body of opinion who thinks 17 that's the right thing to do, that would be acceptable, 18 even though other people might do things differently. 19 MR NESBITT: Well, our and our experts' view on this, in the 20 context of the petroleum industry, is that "acceptable" 21 means a practice or standard which has been 22 peer-reviewed and endorsed by the industry at large and 23 written up in that way. 24 LORD HOFFMANN: That's a higher level of requirement, yes. 25 MR NESBITT: Yes.</p> <p style="text-align: center;">Page 51</p>
<p>1 submissions, which is page 5, rely upon a Nigerian 2 Supreme Court authority as to the correct Nigerian law 3 approach to the construction of contracts. 4 Now, in my submission, that authority supports the 5 approach taken by the claimant in this arbitration, 6 rather than that of the respondents, because it says: 7 "The meaning to be placed on a contract is that 8 which is the plain, clear and obvious result of the 9 terms used in the agreement." 10 I am reading from the pre-hearing submissions but 11 the relevant passage is quoted. 12 Then moving further down, four lines from the 13 bottom: 14 "In the construction of documents the question is 15 not what the parties to the document may have intended 16 to do by entering into that document but what is the 17 meaning of the words used in the document. However, 18 where the meaning of the words used are not clear the 19 court will fall back on the intention behind the words." 20 Now, there is nothing unclear about the words used 21 in Article 7.1(a). The Article refers to 22 "internationally acceptable petroleum industry practices 23 and standards". It says nothing about what 24 a hypothetical oil company would consider acceptable, 25 and that's not an interpretation that can sensibly be</p> <p style="text-align: center;">Page 50</p>	<p>1 MR LEW: It doesn't mean there is only one practice. 2 MR NESBITT: Indeed, indeed. 3 MR SHOESMITH: I think if it helps sir, the Bolam test 4 obviously is setting the bar. If you find an acceptable 5 standard, what a bank of practitioners might deem to be 6 acceptable, that is a defence. What we're looking at in 7 the contract, of course, is setting a standard to which 8 NAE must live up to and comply with. So it is quite 9 right. I think it two sides of the same coin: NAE must 10 not fall short of the higher threshold of peer-reviewed 11 embedded standards but, of course, part of that would be 12 that if it lived up to a standard that its peers 13 considered to be broadly acceptable, then it would not 14 have fallen short. 15 LORD HOFFMANN: Well, that's what I had in mind. 16 MR SHOESMITH: Yes. 17 LORD HOFFMANN: I mean, you might get a situation where peer 18 review and so forth establishes that that's the only way 19 to do it. On the other hand, you might get a situation 20 in which people have different views on how it ought to 21 be done, and in that situation one would normally say, 22 well, if there is a respectable body of people who think 23 that's the right way of doing it, then that counts as 24 an acceptable way of doing it, even though somebody else 25 might do differently.</p> <p style="text-align: center;">Page 52</p>

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<p>1 THE CHAIRMAN: Aren't you putting quite a gloss on these</p> <p>2 words, though? There is no mention of peer review or</p> <p>3 anything like that in these words.</p> <p>4 MR NESBITT: Well, one has to interpret what the words mean</p> <p>5 and that is our interpretation. It doesn't say</p> <p>6 "peer-reviewed", but that is what the experts understand</p> <p>7 those words to mean.</p> <p>8 LORD HOFFMANN: Acceptable?</p> <p>9 MR NESBITT: Yes. But equally --</p> <p>10 THE CHAIRMAN: The experts are expressing their opinion in</p> <p>11 their area of expertise. We have to interpret the</p> <p>12 contract.</p> <p>13 MR NESBITT: Yes, and the experts are trying to assist with</p> <p>14 that.</p> <p>15 MR LEW: Two experts might reach different views.</p> <p>16 MR NESBITT: Well, we have three experts who have reached</p> <p>17 the same view and one who has a different view.</p> <p>18 LORD HOFFMANN: Well, exactly. I am trying to make a point</p> <p>19 in your favour, actually.</p> <p>20 MR NESBITT: Yes, I understand that.</p> <p>21 LORD HOFFMANN: You may not recognise it as such.</p> <p>22 MR NESBITT: Well, when you read the respondents' experts'</p> <p>23 expert reports, there Mr Dyson says that he is applying</p> <p>24 the test of what would be acceptable to a hypothetical</p> <p>25 international oil company. And that's all very well,</p> <p style="text-align: center;">Page 53</p>	<p>1 of their eggs in the Article 7.1(a) basket, so that's</p> <p>2 what we are dealing with.</p> <p>3 Secondly, as I've said, the parties were operating</p> <p>4 in the deep offshore world and obviously NAE would not</p> <p>5 have wanted to be held to any higher a standard than it</p> <p>6 felt it was comfortable with.</p> <p>7 In any event, in fact Article 7.1(a) is not the only</p> <p>8 contractual restraint, if you like, on NAE's conduct.</p> <p>9 Article 7.1(k) also requires NAE to indemnify Allied</p> <p>10 against loss and damage as a result of negligence, and</p> <p>11 that's something which the respondents have expressly</p> <p>12 confirmed they do not allege in this arbitration.</p> <p>13 Turning now, if I may, to the matters in respect of</p> <p>14 which breach is alleged.</p> <p>15 As originally set out in the counterclaims, it was</p> <p>16 said that there were five matters which gave rise to</p> <p>17 breaches of Article 7.1(a): drilling, cementing,</p> <p>18 production, the management and implementation of the</p> <p>19 GSO, and the failure to re-inject gas and the</p> <p>20 corresponding gas flaring.</p> <p>21 Now, according to 1.15 of the respondents'</p> <p>22 pre-hearing submission, that has now been reduced down</p> <p>23 to two: cementing and aggressive production. That does</p> <p>24 not come as a particular surprise and is fairly typical</p> <p>25 of the way in which the respondents have changed their</p> <p style="text-align: center;">Page 55</p>
<p>1 but when you actually look at what he says in his</p> <p>2 reports it is pretty clear that what he's really</p> <p>3 applying is his own subjective view of whether what NAE</p> <p>4 did or didn't do would have been approved by his</p> <p>5 hypothetical international oil operator. In the vast</p> <p>6 majority of cases that he refers to, there's actually no</p> <p>7 analysis or explanation of why he believes that to be</p> <p>8 the case. He might conceivably have referred to what</p> <p>9 another company with similar attributes to NAE actually</p> <p>10 did in similar circumstances, but there's none of that</p> <p>11 analysis. It is hypothetical in the extreme. Indeed,</p> <p>12 he rarely makes references to what he says are examples</p> <p>13 of practices and standards exhibited to his report. We</p> <p>14 say that that type of test is not what the contract</p> <p>15 intended and, even if you feel that you need to give</p> <p>16 consideration to the parties' intentions, that can't be</p> <p>17 what they intended.</p> <p>18 I think one of the points made or suggested by the</p> <p>19 respondents in their pre-hearing submission is that,</p> <p>20 well, if you interpret Article 7.1(a) as we do, that is</p> <p>21 relatively narrow and so there might be operations where</p> <p>22 NAE is effectively operating without any restraint or in</p> <p>23 a vacuum, or whatever way you want to put it. In</p> <p>24 response to that, first of all, we're obviously</p> <p>25 responding to the respondents' case. They have put all</p> <p style="text-align: center;">Page 54</p>	<p>1 case as the arbitration has proceeded.</p> <p>2 That change is perhaps most striking in respect of</p> <p>3 the gas shut off, the GSO, where the claim seems to have</p> <p>4 changed from very specific operational aspects of the</p> <p>5 GSO, such as the procurement and functioning of packers,</p> <p>6 et cetera, as Mr Shoesmith mentioned, down to the issue</p> <p>7 it would seem of whether or not it can fairly have been</p> <p>8 described as successful. The Tribunal will recall that</p> <p>9 the respondents devoted large sections of their</p> <p>10 pleadings and expert evidence to the GSO, only for their</p> <p>11 expert ultimately to concede that the original plan was</p> <p>12 technically and operationally sound, that the</p> <p>13 contingency plan that NAE put in place was the only</p> <p>14 option in the circumstances, and that risks were</p> <p>15 successfully managed, et cetera, and that the operation</p> <p>16 was successful in placing what's called the MaraSEAL</p> <p>17 polymer into the target formation.</p> <p>18 The Tribunal will have seen that in our covering</p> <p>19 letter sent with our pre-hearing submissions we picked</p> <p>20 up on this apparent shift in position after we'd seen</p> <p>21 the respondents' list of issues and asked them to</p> <p>22 confirm that they had dropped their allegation of breach</p> <p>23 of 7.1(a) in respect of specifically the GSO, although</p> <p>24 we have not had a response to that invitation.</p> <p>25 Now, just pausing there for a moment. Of course,</p> <p style="text-align: center;">Page 56</p>

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<p>1 the technical matters which underlie the counterclaims</p> <p>2 are very interesting, and one can, and indeed one has,</p> <p>3 spent hours, days and weeks as a layperson getting one's</p> <p>4 head around them. Of course, because they've been</p> <p>5 raised, we have to deal with them in considerable</p> <p>6 detail. But at the risk of stating the obvious, just</p> <p>7 because they are technical and complex doesn't mean that</p> <p>8 they are of any substance as legal claims.</p> <p>9 Turning to the first of the respondents' surviving</p> <p>10 allegations relating to the cementing of the 9 5/8</p> <p>11 section of the well.</p> <p>12 As we set out in our submissions that claim</p> <p>13 originally consisted of eight separate elements,</p> <p>14 a number of which were abandoned at the expert evidence</p> <p>15 stage. But essentially the fact remains that the</p> <p>16 respondents have adduced no proof positive that the</p> <p>17 cementing was actually defective, quite aside from the</p> <p>18 question of the execution of the cementing job. Rather,</p> <p>19 they are limited to criticising aspects of the execution</p> <p>20 and the evaluation of the cementing work.</p> <p>21 Now, we've addressed each of those aspects at length</p> <p>22 in our witness and expert evidence. We say that there</p> <p>23 is nothing to them. Indeed, the respondents don't</p> <p>24 really tackle NAE's or its experts' positions head on.</p> <p>25 So, for example, one allegation is that NAE should have</p> <p style="text-align: center;">Page 57</p>	<p>1 shown, an analysis of the temperature results from the</p> <p>2 PLT data, which was conducted as part of the GSO</p> <p>3 operation in an effort to identify the source of the</p> <p>4 gas, shows convincingly that the gas entering the well</p> <p>5 closest to the area around the casing shoe could not</p> <p>6 have been travelling down behind the casing, which it</p> <p>7 would have been had there been a channel in with cement,</p> <p>8 and because if had the PLT data would have shown</p> <p>9 a temperature cooling effect, and there is no evidence</p> <p>10 on the PLT data of any such effect.</p> <p>11 Turning to the production allegations, these</p> <p>12 effectively amount to an allegation that NAE's approach</p> <p>13 was too aggressive in terms of bean-up Oyo-5, with too</p> <p>14 wide a choke size, and in its management of ongoing</p> <p>15 production. Although, as the arbitration has</p> <p>16 progressed, the respondents and their experts have now</p> <p>17 accepted that the relevant measure is drawdown, rather</p> <p>18 than choke size. That is the pressure differential at</p> <p>19 the bottom of the well essentially. This is expressly</p> <p>20 conceded by Mr Dyson who says in terms that the key</p> <p>21 parameter during bean-up and production of an oil and</p> <p>22 gas well is drawdown and choke size. The reference</p> <p>23 there is the joint report at E3, tab 3, page 63.</p> <p>24 Unfortunately, the respondents' experts rather got</p> <p>25 off on the wrong foot by claiming that the initial</p> <p style="text-align: center;">Page 59</p>
<p>1 conducted what's called reciprocation and rotation of</p> <p>2 the casing as part of the cementing job. Reciprocation</p> <p>3 is moving the casing up and down. Rotation is rotating</p> <p>4 it. Although in the pre-hearing submission there is no</p> <p>5 mention of reciprocation, only rotation.</p> <p>6 But the point I am making is the respondents don't</p> <p>7 really make any attempt to address the evidence of NAE's</p> <p>8 expert, Mr Kellingray and indeed their fact witness</p> <p>9 Mr Minelli as why it would be extremely foolhardy to</p> <p>10 attempt any casing movement on any deep offshore subsea</p> <p>11 well. Equally.</p> <p>12 As regards the segmented bond tool, the SBT log,</p> <p>13 which NAE ran over the casing and originally, of course,</p> <p>14 as we know, the respondents had claimed that it was</p> <p>15 something called a CBL, which is something different and</p> <p>16 a less-sophisticated type of cement evaluation, it is</p> <p>17 common ground between the experts that the SBT log was</p> <p>18 inconclusive, and in circumstances where all other</p> <p>19 indicators suggested that the cement job was</p> <p>20 satisfactory, any decision by NAE other than to drill</p> <p>21 ahead and carry on would have been inconsistent with</p> <p>22 NAE's obligation to avoid waste and obtain maximum</p> <p>23 recovery of crude oil at minimum cost.</p> <p>24 In any event, and we'll touch upon this when we get</p> <p>25 to causation as well, as NAE's expert, Mr Crumpton, has</p> <p style="text-align: center;">Page 58</p>	<p>1 drawdown applied by NAE during bean-up had been 400 psi,</p> <p>2 pounds per square inch, which is the unit of measure for</p> <p>3 drawdown. In fact it was about a quarter of that and,</p> <p>4 indeed, was expressly recognised as not being</p> <p>5 an aggressive level of drawdown by the respondents' own</p> <p>6 technical team in a report that they wrote after the GSO</p> <p>7 had been completed. The reference to that is</p> <p>8 bundle G16, tab 441, at page 5.</p> <p>9 So, as we said in our pre-hearing submission, there</p> <p>10 is a lot of reverse engineering going on. NAE's</p> <p>11 position is, in summary, on our interpretation of</p> <p>12 Article 7.1(a) that there are no applicable standards,</p> <p>13 either as regards the bean-up process or the level of</p> <p>14 drawdown to apply during production. The evidence shows</p> <p>15 that the drawdown was carefully monitored in an effort</p> <p>16 to strike a balance between the gas entry, which was</p> <p>17 happening, and maintaining for production at economic</p> <p>18 rates in accordance with Article 7.1(a). In any event,</p> <p>19 as Mr Nigido testifies in his statement, even when the</p> <p>20 choke size was reduced, there was no evidence that it</p> <p>21 affected the gas ratio. It stayed the same.</p> <p>22 In this context, it's helpful to compare the</p> <p>23 drawdowns that applied on the bean-up of Oyo-5 with</p> <p>24 those applied on the bean-up of Oyo-7, which is the new</p> <p>25 well drilled by the respondents in 2014.</p> <p style="text-align: center;">Page 60</p>

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<p>1 Could I also ask you to take out bundle E2, tab 1,</p> <p>2 at page 65.</p> <p>3 Bundle 6. It is actually the same. So page 65,</p> <p>4 120. It also says 65 in the bundle numbering.</p> <p>5 MR LEW: E2?</p> <p>6 MR NESBITT: Bundle E2, tab 1, is the Navigant report.</p> <p>7 MR LEW: It's at page ...?</p> <p>8 MR NESBITT: 65. But looking first at the slide, at the top</p> <p>9 of the slide is the Oyo-7 bean-up programme, and that's</p> <p>10 been taken from an exhibit to Mr Dyson's report,</p> <p>11 exhibit MJD23, and it's a bean-up plan which Mr Dyson</p> <p>12 expressly confirms accords with his interpretation of</p> <p>13 internationally acceptable petroleum industry practices</p> <p>14 and standards. He says that on page 65 in front of you</p> <p>15 at paragraph 7.2.14:</p> <p>16 "By way of example, the bean-up of the subsequent</p> <p>17 Oyo-7 and Oyo-8 wells, Allied/Erin did provide suitable</p> <p>18 bean-up programmes along the lines required by</p> <p>19 internationally acceptable petroleum industry practices</p> <p>20 and standards."</p> <p>21 Although he doesn't, as I said earlier, identify</p> <p>22 what those standards are.</p> <p>23 Going back to the slide, below the actual the actual</p> <p>24 drawdown data for Oyo-5. I will come back to that in</p> <p>25 a moment, but if I could ask you to stay in tab 1 and</p> <p style="text-align: center;">Page 61</p>	<p>1 programme, in the third column that I referred to,</p> <p>2 "bean-up cumulative time", by the time you get to 105 --</p> <p>3 is it 105? -- 105 hours and you then look across at</p> <p>4 drawdown, it says 104, but you need to go down one to</p> <p>5 117 because what that means is that when you get to 105</p> <p>6 hours drawdown is then stepped up to 117. So that was</p> <p>7 planning a maximum drawdown of 117 psi accumulative time</p> <p>8 to reach that value of 103 hours.</p> <p>9 Conversely, if you look down at the Oyo-5 bean-up</p> <p>10 data, you can see that that involves a maximum drawdown</p> <p>11 of 112 psi, that's again the penultimate column, the 112</p> <p>12 figure at the bottom of that column, and that value has</p> <p>13 been agreed between the experts as the one that was</p> <p>14 actually used, the cumulative time to reach that value</p> <p>15 of 169 hours.</p> <p>16 So a comparison of those two sets of data shows that</p> <p>17 NAE was actually being very prudent in its approach to</p> <p>18 bean-up. It was taking a longer period of time to</p> <p>19 arrive at a lower drawdown. It's effectively applying</p> <p>20 quite similar conditions to those designed for Oyo-7 by</p> <p>21 Allied.</p> <p>22 Oyo-5 and Oyo-7 are similar wells and, as Mr Dyson</p> <p>23 says, they drain the same reservoir. It's also relevant</p> <p>24 to bear in mind that NAE's approach to bean-up was taken</p> <p>25 more than five years before the start-up of Oyo-7, and</p> <p style="text-align: center;">Page 63</p>
<p>1 turn to page 79, page 79, tab 1, and I am now looking at</p> <p>2 paragraph 7.5.5 about halfway through that paragraph,</p> <p>3 Mr Dyson says:</p> <p>4 "The approach to the commencement of production</p> <p>5 taken with Oyo-7 and Oyo-8, which drained the same</p> <p>6 reservoir targeted by Oyo-5, was prudent and much more</p> <p>7 careful than NAE's approach. Both wells were carefully</p> <p>8 and gradually beamed up in a controlled manner starting</p> <p>9 with smaller choke sizes than those used by NAE. In the</p> <p>10 first to eight to nine months of production I understand</p> <p>11 that there has been virtually no gas produced from these</p> <p>12 wells."</p> <p>13 So the basis for Mr Dyson's statement appears to be</p> <p>14 that the bean-up on Oyo-7 started with smaller choke</p> <p>15 sizes and that the steps between each new choke size</p> <p>16 applied were smaller, and so you can see in the table at</p> <p>17 the top on the left-hand column is the choke size, and</p> <p>18 in the third column what's called "bean-up cumulative</p> <p>19 time" is the cumulative period of time at which the</p> <p>20 choke was kept at that size.</p> <p>21 But when you look at the drawdown figures, which you</p> <p>22 can see in the penultimate column of each table, you can</p> <p>23 see that the drawdown planned for Oyo-7 was actually to</p> <p>24 be stepped up much more rapidly than on Oyo-5.</p> <p>25 So if you look at, first of all, the Oyo-7 bean-up</p> <p style="text-align: center;">Page 62</p>	<p>1 at that time NAE had no knowledge of the very high</p> <p>2 propensity for gas incursion from the Oyo reservoir,</p> <p>3 whereas Allied had the benefit of all the relevant</p> <p>4 accumulated know-how.</p> <p>5 MR LEW: This is a question for the experts, are these two</p> <p>6 wells, these Oyo-5 and Oyo-7, are they comparable?</p> <p>7 MR NESBITT: Yes.</p> <p>8 MR LEW: They are?</p> <p>9 MR NESBITT: Yes. When you say "comparable", do you mean in</p> <p>10 their design, in their shape --</p> <p>11 MR LEW: In their design, in their shape, in the amount of</p> <p>12 production they can carry? Often when you move</p> <p>13 somewhere down the road in an oil field, things will</p> <p>14 change, for better or worse, depending upon the exact</p> <p>15 situation. (Pause).</p> <p>16 MR NESBITT: Based on what we know, we believe that they are</p> <p>17 very similar wells, but obviously it is their well and</p> <p>18 we don't have access to all of the technical data, such</p> <p>19 as that which you referred to.</p> <p>20 MR LEW: Thank you.</p> <p>21 MR NESBITT: As regards the GSO, as I mentioned the latest</p> <p>22 formulation of Allied's case suggests, although without</p> <p>23 expressly confirming, that Allied no longer relies on</p> <p>24 the matters complained of in respect of the GSO as</p> <p>25 breaches of contract. Instead, their position seems to</p> <p style="text-align: center;">Page 64</p>

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<p>1 be that it is entitled to claim wasted because of the</p> <p>2 GSO as part of its damages on the basis that the GSO</p> <p>3 wasn't successful.</p> <p>4 We'll see what approach is taken today but it</p> <p>5 appears that it may well be the case that the vast</p> <p>6 majority of Mr Dyson's and Mr Crumpton's evidence on the</p> <p>7 GSO's execution may now have been rendered irrelevant by</p> <p>8 that shift of position.</p> <p>9 On gas reinjection and flaring, there really is very</p> <p>10 little to say. A claim in relation to a supposed drop</p> <p>11 in reservoir pressure was trailed in the respondents'</p> <p>12 pleadings but has never materialised. There is no</p> <p>13 quantification on either a "but for" or an actual basis</p> <p>14 of reservoir pressure by any of Allied's experts. So</p> <p>15 the only surviving relevance of gas flaring seems to be</p> <p>16 the DPR find, which we address in our pre-hearing</p> <p>17 submissions at 7.1 to 7.10.</p> <p>18 You can put bundle E away if you wish.</p> <p>19 In short, for all of the reasons which are set out</p> <p>20 in a great more detail in our fact and expert evidence,</p> <p>21 we say that the respondents don't come close to making</p> <p>22 out any breach of Article 7.1(a).</p> <p>23 But even if that were found to be incorrect, that</p> <p>24 does not, of course, get the respondents home. They</p> <p>25 must then prove that, firstly, if there was a breach,</p> <p style="text-align: center;">Page 65</p>	<p>1 Oyo-7 as follows.</p> <p>2 So the top chart is the Oyo-7 oil rate. The bottom</p> <p>3 chart is the Oyo-7 gas-oil ratio. He identifies the</p> <p>4 breakthrough taking place in August 2015, I believe,</p> <p>5 about 70 days after the start of production.</p> <p>6 So NAE's position is that this demonstrates that the</p> <p>7 problem of gas incursion from the Oyo field is linked to</p> <p>8 specific reservoir features, as will be seen,</p> <p>9 essentially a very high level of permeability, in</p> <p>10 combination with what are referred to as dipping strata</p> <p>11 or sloping rock formations, in particular, at the heel</p> <p>12 of the Oyo well which were not known at the initial</p> <p>13 field start-up.</p> <p>14 So there is no causal link between NAE's work as</p> <p>15 operator and the gas ingression.</p> <p>16 But even if there were, the respondents have not</p> <p>17 come close to establishing a proper causal link between</p> <p>18 the gas ingression and the supposed damages that they</p> <p>19 claim by way of alleged volumes of lost production.</p> <p>20 Because key to Dr Moy's forecasts is one very big</p> <p>21 assumption: the drilling of two additional wells in the</p> <p>22 Oyo field, Oyo-7 and Oyo-8, would have been brought</p> <p>23 forward by in one case almost two years and in the other</p> <p>24 about six months. This is admitted in terms by the</p> <p>25 respondents in their pre-hearing submission. They say,</p> <p style="text-align: center;">Page 67</p>
<p>1 that it caused the gas ingression and, secondly, if it</p> <p>2 did cause the gas ingression, that it caused a loss of</p> <p>3 production to the respondents. That's how they framed</p> <p>4 their quantum claim: in terms of loss of oil production.</p> <p>5 As regards the cementing, as I have already</p> <p>6 mentioned, the evidence and in particular the production</p> <p>7 logging tool data, the PLT data, shows that the gas</p> <p>8 cannot have been entering via a channel in the cement.</p> <p>9 That is also supported by Mr Filippi, who has modelled</p> <p>10 the effect of a gas breakthrough attributable to</p> <p>11 a cement channel and concluded that there was none.</p> <p>12 As regards production, as I've already said, the</p> <p>13 beaming process and drawdown applied was low, lower than</p> <p>14 that planned for Oyo-7 by Allied, and lowering it</p> <p>15 further had no effect on the gas-oil ratio.</p> <p>16 In any event, as we'll see when we come to consider</p> <p>17 the evidence in due course, the effect of the gas</p> <p>18 breakthrough was not the cementing or the approach to</p> <p>19 production -- neither of which, as I've said, was</p> <p>20 performed in breach of any applicable industry standards</p> <p>21 in any case -- but the natural features of the</p> <p>22 reservoir. As Mr Filippi will explain, despite the</p> <p>23 respondents' claims to the contrary and despite all the</p> <p>24 precautions apparently taken, there is also early gas</p> <p>25 breakthrough on Oyo-7 and Oyo-8, shown by Mr Filippi on</p> <p style="text-align: center;">Page 66</p>	<p>1 at 8.9:</p> <p>2 "The key driver in the value difference between the</p> <p>3 two production forecasts [that is Dr Moy's forecast</p> <p>4 versus Mr Filippi's forecast] is the production profile</p> <p>5 over time and, in particular, the dates on which the</p> <p>6 Oyo B and Oyo C [for which read Oyo-7 and Oyo-8] would</p> <p>7 have been drilled in the 'but for' scenario."</p> <p>8 Now, the sole evidential basis for this is</p> <p>9 a paragraph of one witness statement where the witness</p> <p>10 says that the two wells would likely have been drilled</p> <p>11 and completed by mid-2012.</p> <p>12 In my submission, proof to the required standard</p> <p>13 that a significant undertaking, such as the drilling of</p> <p>14 a deep offshore well, would have been planned, budgeted</p> <p>15 for, approved and executed far earlier than it actually</p> <p>16 was, needs a lot more than one paragraph in a witness</p> <p>17 statement. The respondents know that perfectly well.</p> <p>18 They've tried to address the point at 8.16 of their</p> <p>19 pre-hearing submissions.</p> <p>20 But, frankly, those submissions don't add any</p> <p>21 additional support to what is said in the witness</p> <p>22 statement -- it is the statement of Mr Omidele -- and</p> <p>23 even the respondents are forced to concede, as they do</p> <p>24 at 8.19 of their pre-hearing submissions, the obvious</p> <p>25 point that:</p> <p style="text-align: center;">Page 68</p>

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<p>1 "There can be no exact certainty as to when Oyo-7 2 and Oyo-8 would have been drilled in the 'but for' 3 world." 4 But even if -- and now we're getting to the outer 5 realms of Wonderland, perhaps -- the causation hurdles 6 and all of the other hurdles could be overcome, the 7 respondents still need to prove their loss. For that, 8 they are dependent in the first place on Dr Moy. If 9 Dr Moy's reservoir model is not reliable, if the 10 modifications he has made to it are not appropriate and 11 if his production forecasts do not match history, then 12 if there is anything left of the house of cards at that 13 point it collapses completely. 14 We have set out at 14.3 to 14.25 of our pre-hearing 15 submissions the key respects in which we say Dr Moy's 16 ever-changing forecasts and the flawed model from which 17 they are derived show that his forecasts are not 18 reliable. There is clearly not enough time to time them all 19 this morning -- and in any event that's a task that is 20 perhaps best left to Mr Filippi and Dr Moy himself -- 21 but I will give just one recent example. The Tribunal 22 will recall that following the service of Dr Moy's 23 original report on 19 February, without leave, on 24 24 February, an amended version of his report was 25 produced, containing amended oil production rates for</p> <p style="text-align: center;">Page 69</p>	<p>1 a rock formation to transmit fluids, such as gas, oil or 2 water, and it is measured in something called darcies. 3 It is important in this case as the Oyo reservoir was 4 found to have a significantly higher level of 5 permeability, as I mentioned a moment ago, than was 6 initially thought. 7 So logically the higher the multiple you use, the 8 higher the permeability in your model. Its significance 9 is that a higher permeability results in more oil being 10 produced and less gas. That is reflected in Dr Moy's 11 revised actual forecasts in his amended report, which 12 are higher than in his original report. 13 Could I ask you to take bundle E3 -- that's the 14 bundle containing all of the expert joint reports -- and 15 turn to tab 5. This is the reservoir experts' joint 16 report. I am now looking, first of all, at page 193. 17 The paragraph number is 6.15.2.5 in the middle of the 18 page. Here Dr Moy says: 19 "The plots showed in figures 4, 5 and 43 as 'Dr Moy' 20 of BF1 have been taken from 'Actual_v2_3 ..." 21 That's the forecast you saw him referring to in his 22 letter to Stephenson Harwood a moment ago: 23 "... however this has been run as a 'but for' case 24 with a global multiplier of 0.2, instead of 0.1. This 25 results in a less gassy Oyo-5 and consequent impact on</p> <p style="text-align: center;">Page 71</p>
<p>1 Oyo-5 and different forecasts for the other wells. 2 If I could ask you, having asked you to put it away, 3 to retrieve bundle E2 and turn to tab 3, this is 4 Dr Moy's covering letter to Mr Wade at 5 Stephenson Harwood, containing his explanation of why he 6 has amended his expert report. I am looking here at the 7 second numbered paragraph of the letter, where he says: 8 "I have further confirmed that the reservoir model 9 I developed applied a global permeability modifier of 10 0.2 ... This was based on the core and well test 11 permeabilities (which are not mentioned in the D&M) 12 report). It was therefore necessary to ensure that the 13 same modifier value was used in all the models, and as 14 a consequence I amended the 'Actual_v2_3' scenarios." 15 Figures, tables and their footnotes, et cetera, have 16 been revised. 17 Now, the key bit really is that he says "it was ... 18 necessary to ensure that the same modifier value was 19 used in all the models". 20 Just for information purposes, the global 21 permeability modifier is essentially a multiple which is 22 used to dictate the degree of permeability that you 23 ascribe to the reservoir in your model. I am sure that 24 the Tribunal has understood what permeability means in 25 this context, but essentially it is the ability of</p> <p style="text-align: center;">Page 70</p>	<p>1 overall reservoir pressure and well performance. 2 I acknowledge that this run was incorrectly run with 3 a multiplier of 0.2 and I present in Appendix 9.4 ... 4 the results of the same run but using a multiplier of 5 0.1." 6 So essentially Dr Moy seems to have changed his mind 7 back again. He now says that his actual production 8 forecast was incorrectly run and he has rerun it using 9 his original multiplier of 0.1. The result of that is 10 lower oil production forecast from the Oyo field than 11 Dr Moy has stated in his amended report, and of course 12 a commensurate increase in the quantum of the 13 respondents' supposed damages. 14 Now, apart from the lack of confidence that, in our 15 submission, that should inspire in the reliability of 16 Dr Moy's forecasts, by reverting to his original 17 approach and using a multiplier of 0.2 in his "but for" 18 forecasts and 0.1 in his actual forecasts, if I can put 19 it this way he has given the "but for" reservoir double 20 the permeability of the actual reservoir, which means 21 when the resulting production forecasts are used to 22 calculate a damages claim by comparing the two sets of 23 forecasts, one is essentially comparing apples with 24 oranges. Moreover, until yesterday evening, Dr Moy's 25 new figures didn't just alter the forecast actual</p> <p style="text-align: center;">Page 72</p>

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<p>1 production starting from January 2016, they also changed</p> <p>2 the figures for actual measured production from the</p> <p>3 field up until December 2015.</p> <p>4 Now, that is known production data. It can't be</p> <p>5 changed. In other words, in an apparent attempt to</p> <p>6 improve his history match, his historical production</p> <p>7 figures no longer matched actual history. Although</p> <p>8 under cover of the email that we received from</p> <p>9 Stephenson Harwood just before 8 o'clock last night, as</p> <p>10 Mr Shoesmith mentioned, Dr Moy submitted a yet further</p> <p>11 revised version of one of his forecasts, together with</p> <p>12 a covering letter in which he states that the table he</p> <p>13 included in the joint report the week previously was not</p> <p>14 the one appropriate, which is I think another way of</p> <p>15 saying wrong, and that his error this time around was</p> <p>16 that he had used historic gas rates rather than</p> <p>17 historical oil rates as the basis for his revised</p> <p>18 forecast.</p> <p>19 I will leave it to Mr Filippi to comment in due</p> <p>20 course on whether or not that is an acceptable order of</p> <p>21 error in the circumstances.</p> <p>22 I probably have about ten minutes left, Mr Chairman,</p> <p>23 if you're willing to indulge me?</p> <p>24 THE CHAIRMAN: Yes.</p> <p>25 MR NESBITT: Now, on the GSO wasted costs claim, the fact,</p> <p style="text-align: center;">Page 73</p>	<p>1 to these provisions last, for no better reason than</p> <p>2 arguably one might say that you only need to consider</p> <p>3 the limitation provision if there is at least a prima</p> <p>4 facie case on liability, which for all the reasons we've</p> <p>5 already discussed we say there isn't, you could just as</p> <p>6 easily consider them at a preliminary stage, since they</p> <p>7 are yet a further reason why the counterclaims simply do</p> <p>8 not get off the ground.</p> <p>9 However, there is a threshold issue here too, which</p> <p>10 centres on the respondents' contention, which they still</p> <p>11 maintain in their pre-hearing submission at 9.9 to 9.15,</p> <p>12 that the clause 12 exclusions do not apply to claims for</p> <p>13 breach of the PSC brought in this arbitration, whether</p> <p>14 they are framed as direct PSC claims or claims under</p> <p>15 a clause 11.1 indemnity.</p> <p>16 Now, that is an issue which will already be familiar</p> <p>17 to the majority of the Tribunal, since, of course, it is</p> <p>18 one which is ventilated at the preliminary issues</p> <p>19 hearing in the context of Allied's position in respect</p> <p>20 of their agreement at clause 12.18 of the SPA, which you</p> <p>21 don't really need to turn to, but it is the top of</p> <p>22 page 32, to waive any right of set-off as against their</p> <p>23 payment obligations in the SPA.</p> <p>24 The arguments run by Allied at that time -- which</p> <p>25 for reference you will find in bundle C1, tab 2,</p> <p style="text-align: center;">Page 75</p>
<p>1 of course, is that the respondent had agreed in the side</p> <p>2 agreement, that's the one approved at the Macom</p> <p>3 meeting -- and you'll find it, although you don't need</p> <p>4 to turn it up, in bundle G12, tab 291, page 18 -- to pay</p> <p>5 the GSO costs, and that agreement wasn't in any sense</p> <p>6 express or implied, conditional on the outcome of the</p> <p>7 GSO operation.</p> <p>8 In any event, it's clear from the evidence that the</p> <p>9 respondents knew that a successful outcome, in the sense</p> <p>10 of successfully shutting off the gas from entering the</p> <p>11 well, was not guaranteed. You can see that from the</p> <p>12 minutes of the very same Macom meeting at which the</p> <p>13 respondents agreed to fund the GSO, which is at</p> <p>14 bundle G12, tab 294, page 102. No need to turn it up.</p> <p>15 It is also relevant to note that, as Mr Cerrito</p> <p>16 explains at paragraphs 35 and 36 of his witness</p> <p>17 statement, Allied has already recovered the GSO costs</p> <p>18 from cost oil, from crude oil lifted from the field.</p> <p>19 Now, finally, for the purposes of opening, the</p> <p>20 contractual exclusions and acknowledgements set out in</p> <p>21 clause 12 of the SPA. So at this point it may be</p> <p>22 helpful if we go back to bundle A1, tab 1, and you'll</p> <p>23 find clause 12 beginning at page 26.</p> <p>24 The principal provisions on which we rely are</p> <p>25 clauses 12.1(a), 12.2, 12.4 and 12.20. Although I come</p> <p style="text-align: center;">Page 74</p>	<p>1 page 72, with NAE's arguments at C1, tab 1, page 26 --</p> <p>2 are broadly the same as the arguments that they are</p> <p>3 still running today. They focus on the definition of</p> <p>4 "Claim" in the SPA.</p> <p>5 Now, our position is summarised at 18.59 to 18.73 of</p> <p>6 our pre-hearing submissions. There are a number of</p> <p>7 reasons why the respondents are wrong, but the essence</p> <p>8 of our position is that this is an issue which the</p> <p>9 Tribunal has already had to determine in the context of</p> <p>10 clause 12.18, and we think that that determination holds</p> <p>11 good for all of the limitation provisions set out in</p> <p>12 clause 12, including the ones we rely on now.</p> <p>13 Now, as regards, first of all, the clause 11.1</p> <p>14 indemnity claims, you found in terms that any such</p> <p>15 claims would be "subject to the limitations and other</p> <p>16 provisions of the SPA". I am quoting those words from</p> <p>17 paragraph 181 of the first partial award.</p> <p>18 So that's very clear.</p> <p>19 As regards PSC claims, you found that that</p> <p>20 interpretation of clause 11.1, that it was subject to</p> <p>21 the limitations and other provisions of the SPA, had to</p> <p>22 be applied consistently, with the result that you</p> <p>23 determined that the purpose of clause 12.8, which is</p> <p>24 what you were looking at at the time, the set-off</p> <p>25 waiver, was to exclude any claims relating to the</p> <p style="text-align: center;">Page 76</p>

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<p>1 transferred interests, whether they were framed as PSC</p> <p>2 claims or as clause 11.1 indemnity claims. If that is</p> <p>3 right, and obviously we say it is, exactly the same</p> <p>4 analysis must apply when considering the purpose of any</p> <p>5 other limitation provision in clause 12.</p> <p>6 So we say that clause 12 applies to all of the</p> <p>7 counterclaims.</p> <p>8 In particular, we say that clause 12.1(a) excludes</p> <p>9 NAE's liability for all of the counterclaims.</p> <p>10 Clause 12.1(a) says that:</p> <p>11 "The seller shall not be liable in respect of any</p> <p>12 claim to the extent that the matter or circumstance</p> <p>13 giving rise to the claim was known or should reasonably</p> <p>14 have been known to the purchaser or its advisers, if</p> <p>15 any."</p> <p>16 We say that all of the counterclaims arise out of</p> <p>17 matters or circumstances which Allied knew or should</p> <p>18 reasonably have known about by reason of its access to</p> <p>19 and involvement in the Oyo field and its operations.</p> <p>20 But what is more, it is clear on the evidence that</p> <p>21 Allied knew perfectly well that that was the effect of</p> <p>22 that provision and during negotiations of the SPA they</p> <p>23 attempted to limit its extent. This is the last bundle</p> <p>24 that I will ask you to turn up. It is bundle G19. I am</p> <p>25 going to look at a couple of documents in this bundle.</p> <p style="text-align: center;">Page 77</p>	<p>1 has deleted Mr Malek's proposed insertion and the clause</p> <p>2 remains intact. So, in other words, Allied accepted the</p> <p>3 scope of clause 12.1(a) in full knowledge of its meaning</p> <p>4 and consequences.</p> <p>5 Now, I said earlier that clause 12 provides another</p> <p>6 ground to dismiss the counterclaims on a preliminary</p> <p>7 basis. To reach that conclusion, going back to the SPA</p> <p>8 and clause 12, and assuming you accept that clause 12</p> <p>9 does apply to the respondents' counterclaims in this</p> <p>10 arbitration, you need only read clause 12.2 in</p> <p>11 conjunction with clause 12.1(a).</p> <p>12 And clause 12.2(c) says:</p> <p>13 "Acknowledgement. Purchaser [that's Allied]</p> <p>14 acknowledges and agrees that being a part of the</p> <p>15 contractor under the PSC Allied is fully aware of all</p> <p>16 information relating to the OMLs, Oyo field, the PSC,</p> <p>17 all related contracts and all the related matters</p> <p>18 thereof."</p> <p>19 In other words, when considering the applicability</p> <p>20 of clause 12.1(a), essentially you don't really need to</p> <p>21 investigate whether as a matter of fact the evidence</p> <p>22 demonstrates that Allied knew or should have known of</p> <p>23 the relevant matters or circumstances, because the</p> <p>24 bargain struck between the parties was that they agreed</p> <p>25 and Allied in particular expressly agreed that it knew</p> <p style="text-align: center;">Page 79</p>
<p>1 First of all, tab 509 the first page, which is 245.</p> <p>2 That's an email from Mr Cerrito of NAE to Mr Malek of</p> <p>3 Allied/CAMAC, sending a marked-up version of the SPA.</p> <p>4 If you turn over the page, you'll see the email from</p> <p>5 Mr Malek that Mr Cerrito is replying to. This is on</p> <p>6 23 December 2011, so very shortly before the SPA was</p> <p>7 signed.</p> <p>8 In paragraph 1 he says:</p> <p>9 "Clause 12.1(a). Allied very reluctantly accepts</p> <p>10 the exclusions listed in clause 12.1(a), except that</p> <p>11 these should only apply to claims arising out of</p> <p>12 breaches of seller's warranty rather than oil claims.</p> <p>13 We should not be precluded from asserting a claim if NAE</p> <p>14 fails to honour its indemnity obligations in relation to</p> <p>15 gas flaring, for example, simply because of an argument</p> <p>16 Allied should have known that there could be liability</p> <p>17 for gas flaring. While we disagree with them, types of</p> <p>18 exclusion listed in 12.1(a) can only make sense in the</p> <p>19 context of warranties and not for claims relating to</p> <p>20 breaches of covenants and indemnities, such as the gas</p> <p>21 flaring indemnity."</p> <p>22 However, that was not agreed.</p> <p>23 If you turn to, in the same tab, page 275, and</p> <p>24 remembering that this is NAE's markup of the SPA sent</p> <p>25 back to Mr Malek, you can see at the top, 12.1(a), NAE</p> <p style="text-align: center;">Page 78</p>	<p>1 everything. That also makes claims of the kind made in</p> <p>2 this arbitration, to borrow Mr Shoesmith's phrase,</p> <p>3 legally impossible. But that is not all.</p> <p>4 If you still have, and I hope you have, bundle G19,</p> <p>5 if you turn back to tab 506, that's the first tab in the</p> <p>6 bundle, this is an earlier email than the one we just</p> <p>7 looked at from Mr Malek to Mr Cerrito of</p> <p>8 20 December 2011. This is attaching Allied's proposed</p> <p>9 amendments to the SPA.</p> <p>10 If you turn to page 29 in the same tab, this</p> <p>11 evidences that at that point in the parties' discussions</p> <p>12 Mr Malek had also attempted to strike out clause 12.2.</p> <p>13 You can see he's highlighted it -- sorry, 12.2(d), which</p> <p>14 it was at that time. He's highlighted it, and this is</p> <p>15 the reason he gives:</p> <p>16 "Delete (c) and (d). Given that seller is already</p> <p>17 providing very limited warranties and that Allied has</p> <p>18 complained on numerous occasions that NAE is not</p> <p>19 providing the information to which Allied is entitled,</p> <p>20 clause (d) is inappropriate."</p> <p>21 But, again, clause 12.2 was untouched in the final</p> <p>22 agreement. In other words, Allied knew perfectly well</p> <p>23 what the effect of that agreement was, attempted to</p> <p>24 negotiate it away, failed and ultimately accepted it</p> <p>25 with their eyes wide open.</p> <p style="text-align: center;">Page 80</p>

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<p>1 But --</p> <p>2 MR LEW: Forgive me, where was your comment that you just</p> <p>3 made on Allied's view on the draft of 12.2(c) and (d)?</p> <p>4 MR NESBITT: Sorry, it is page 29 at the bottom. So do you</p> <p>5 see 12.2(d)? Page 29 in the bundle, 27 in the draft.</p> <p>6 MR LEW: Yes, I have that.</p> <p>7 MR NESBITT: Yes.</p> <p>8 MR LEW: I see. The clause is underneath that.</p> <p>9 MR NESBITT: Yes. It is in square brackets and begins with</p> <p>10 the words "Delete (c) and (d)". But if we're wrong on</p> <p>11 all of that at 18.1 to 18.58 of our pre-hearing</p> <p>12 submission we have summarised the detailed facts, which</p> <p>13 demonstrate that as a matter of fact the respondents did</p> <p>14 in any event possess the relevant knowledge of the</p> <p>15 matters and circumstances which are alleged to give rise</p> <p>16 to the counterclaims by reference to each constituent</p> <p>17 element of the counterclaims as they were originally</p> <p>18 pleaded.</p> <p>19 In our submission, the facts speak for themselves.</p> <p>20 Everything that is now claimed by the respondents to</p> <p>21 constitute a breach of 7.1(a) in this arbitration is</p> <p>22 something which the respondents and their personnel were</p> <p>23 fully aware of.</p> <p>24 So in conclusion, for all of the reasons outlined in</p> <p>25 our pleadings, submissions, evidence, the reasons</p> <p style="text-align: center;">Page 81</p>	<p>1 submissions and so we prepared a set, even if we're not</p> <p>2 entirely accustomed to doing that.</p> <p>3 There are a number of introductory points I would</p> <p>4 like to make on that slide, and the first is that in the</p> <p>5 course of their pre-hearing submissions served last</p> <p>6 week, the claimants have introduced an entirely new</p> <p>7 argument in respect of novations, which rely heavily,</p> <p>8 although we didn't hear it today they were introduced by</p> <p>9 Mr Shoesmith, but they rely heavily on an interpretation</p> <p>10 of Nigerian case law. So we reserve the right -- we</p> <p>11 will not deal with those submissions at this point, but</p> <p>12 we will respond to them in the written closing</p> <p>13 submissions that are anticipated, and we are in the</p> <p>14 process of obtaining the necessary Nigerian law input on</p> <p>15 those. We understand, even from a preliminary review,</p> <p>16 subject to what we would say in the end, that they</p> <p>17 depend on the misconstruction of the law of standing and</p> <p>18 locus standi.</p> <p>19 So we reject those submissions but we will respond</p> <p>20 in detail in due course.</p> <p>21 The other introductory comment I will make, is that,</p> <p>22 as you know, Mr Gunning QC has kindly agreed to share</p> <p>23 the burden of my submissions with me, and the way we</p> <p>24 have split the tasks between us is that he has agreed to</p> <p>25 take on the task of introducing and explaining the</p> <p style="text-align: center;">Page 83</p>
<p>1 outlined by Mr Shoesmith, these counterclaims are not</p> <p>2 only wholly without merit but, frankly, given the</p> <p>3 obvious nature of that lack of merit and the time and</p> <p>4 effort and above all the huge expense involved in</p> <p>5 addressing them, they are little short of scandalous.</p> <p>6 Mr Chairman, unless I can assist you any further,</p> <p>7 those are my submissions.</p> <p>8 THE CHAIRMAN: Thank you very much. Shall we now have</p> <p>9 a break until 2 o'clock. Does that give everyone enough</p> <p>10 time? We will resume at 2 o'clock with the respondents.</p> <p>11 Thank you.</p> <p>12 (1.09 pm)</p> <p>13 (The short adjournment)</p> <p>14 (2.00 pm)</p> <p>15 Opening submissions by MR WADE</p> <p>16 THE CHAIRMAN: Mr Wade.</p> <p>17 MR WADE: Thank you, sir. These are the counter-claimant or</p> <p>18 respondents' opening submissions for this hearing.</p> <p>19 Before I begin, I know I have already made</p> <p>20 a reservation of rights, but I will just refer back to</p> <p>21 those reservation of rights and state them again for the</p> <p>22 record. No need to repeat them verbatim.</p> <p>23 I will stay on that slide for a little bit. The</p> <p>24 difficulties of using slides, I recall that the chairman</p> <p>25 noted that he likes to receive slides of opening</p> <p style="text-align: center;">Page 82</p>	<p>1 technical aspects of the case, and we have referred to</p> <p>2 that quite loosely, they deal mostly with our</p> <p>3 counterclaim side, and I will shortly ask him to</p> <p>4 introduce those aspects to you after I deal with the</p> <p>5 first preliminary question of the construction of</p> <p>6 Article 7.1 of the PSC.</p> <p>7 After Mr Gunning's comments, I will return and deal</p> <p>8 again at a high level with certain aspects of the case,</p> <p>9 bearing in mind your other comment, Mr Chairman, that</p> <p>10 you do not want to hear an entire exposition of the case</p> <p>11 again. I am grateful to you for that guidance.</p> <p>12 Hopefully we will hit the high and the low points of</p> <p>13 both parties' submissions. Of course, if you have any</p> <p>14 questions then please do ask them at any point.</p> <p>15 Like the claimants, I, speaking for myself, don't</p> <p>16 intend to take you to many of the documents at this</p> <p>17 point. But, again, if you would like to see any</p> <p>18 particular document, then please do ask and stop me, and</p> <p>19 I will probably take you to one or two apart from that.</p> <p>20 So turning, then, to the question of PSC</p> <p>21 Article 7.1(a), the text is on screen in front of you.</p> <p>22 Otherwise you have seen it in the bundle already today.</p> <p>23 The first question you need to think about when you</p> <p>24 look at this clause is the rules of interpretation that</p> <p>25 apply to it. In our submission, it is the case of</p> <p style="text-align: center;">Page 84</p>

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<p>1 Adetoun v NB Plc, which guides you on Nigerian law as to</p> <p>2 the interpretation of that clause. You have already</p> <p>3 read through that paragraph today.</p> <p>4 There is nothing in particular which is surprising</p> <p>5 in the approach taken by the Nigerian courts. They</p> <p>6 formulate it slightly differently perhaps to other</p> <p>7 courts, but the basic approach is if the words are clear</p> <p>8 you don't need to construe them very far, only when</p> <p>9 there is uncertainty do you need to look behind the</p> <p>10 words.</p> <p>11 In addition to that when looking at this clause, we</p> <p>12 say you need to look at the context in which the clause</p> <p>13 was agreed, and that context we have submitted and</p> <p>14 continue to submit relates to the oil and gas industry,</p> <p>15 and you will be aware, and we have submitted in our</p> <p>16 opening, that these types of clauses are quite common</p> <p>17 and seen in many similar contracts.</p> <p>18 The first point we would make about it is that --</p> <p>19 and this will be obvious, so I apologise for stating the</p> <p>20 obvious -- this clause was negotiated between two</p> <p>21 parties and included in their agreement, and it must</p> <p>22 have some meaning. It can't mean nothing.</p> <p>23 The reason why I pause on that point is because, as</p> <p>24 Lord Hoffmann, in making a point in favour of the</p> <p>25 claimant and pausing on the Bolam test, which is similar</p> <p style="text-align: center;">Page 85</p>	<p>1 a standard which any international operator of a similar</p> <p>2 stature, any IOC would consider to be acceptable,</p> <p>3 whether it was being applied in Nigeria or in the North</p> <p>4 Sea or in the Gulf of Mexico.</p> <p>5 They were not accepting a parochial national</p> <p>6 standard, but they were looking for the international</p> <p>7 quality of operatorship which is implied by the plain</p> <p>8 language of this clause.</p> <p>9 MR LEW: Do you accept that there can be internationally</p> <p>10 acceptable standards which would be different for</p> <p>11 different oil fields?</p> <p>12 MR WADE: We do accept that, and we accept also that the</p> <p>13 applicable standards and practices will vary from one</p> <p>14 circumstance to the other.</p> <p>15 So the test does have a -- not a subjective element</p> <p>16 but an element which is directed at the operation that</p> <p>17 the operator is conducting at the particular time. That</p> <p>18 is why we say that the test that Mr Dyson has asked</p> <p>19 himself can form as a helpful guide to the Tribunal,</p> <p>20 because he is asking: would an organisation with</p> <p>21 a significant international experience operating oil and</p> <p>22 gas fields have considered in the relevant time and the</p> <p>23 relevant actions that what they were doing was</p> <p>24 acceptable?</p> <p>25 That can help you apply the standard, which the</p> <p style="text-align: center;">Page 87</p>
<p>1 to the content of this clause, thought that this is</p> <p>2 quite similar to a test where if there are other</p> <p>3 companies of a similar nature who would adopt</p> <p>4 a particular course of action, this clause sounds like</p> <p>5 that kind of test. He was a bit surprised, I think to</p> <p>6 hear the claimant not adopting that test wholeheartedly.</p> <p>7 The reason the claimant doesn't adopt that test is</p> <p>8 because they say it is to be construed solely to apply</p> <p>9 to a test of where there is -- to apply the standards as</p> <p>10 to the -- what is their words? -- a standard imposed by</p> <p>11 a peer-reviewed document which is written and published.</p> <p>12 What they also say is that where there is no</p> <p>13 peer-reviewed standard, then it is impossible for there</p> <p>14 to be any standard and, therefore, they can do what they</p> <p>15 want. That is why they don't want to be in a world</p> <p>16 where their conduct has to be measured against what</p> <p>17 other similar companies would do. They prefer the world</p> <p>18 where, if it's not a peer-reviewed standard, there is no</p> <p>19 standard and they are free to do what they want. We say</p> <p>20 that is not the correct construction of this term.</p> <p>21 What is clear is that when the parties agreed to</p> <p>22 internationally acceptable practices and standards, they</p> <p>23 were aiming at something which was higher than just what</p> <p>24 a particular operator wants to do or feels is</p> <p>25 appropriate in the moment. What they were aiming at was</p> <p style="text-align: center;">Page 86</p>	<p>1 parties have agreed to a particular set of</p> <p>2 circumstances. That is not to say that peer-reviewed</p> <p>3 documents can't guide you and shouldn't have guided the</p> <p>4 parties. Certainly that's part of the plethora of</p> <p>5 information sources that operators should have regard to</p> <p>6 and operators complying with this clause should also</p> <p>7 have regard to.</p> <p>8 So we have listed a number of sources which we say</p> <p>9 that the Tribunal can look at, and they include expert</p> <p>10 opinion. They include IOC manuals and recommended</p> <p>11 practices. They certainly include trade publications</p> <p>12 and academic publication and, of course, the API</p> <p>13 recommendations and practices.</p> <p>14 There is one more point that I would like to touch</p> <p>15 on before I hand over to Mr Gunning, and that is one of</p> <p>16 the claims made by the claimants which can be quite</p> <p>17 easily disposed of. They say that this clause on its</p> <p>18 wording can only apply if we identify a work programme,</p> <p>19 because it applies to preparing work programmes, and</p> <p>20 they say we haven't identified a work programme.</p> <p>21 That is a bit of a red herring, because it was the</p> <p>22 claimants' obligation to work to a work programme, and</p> <p>23 if they weren't, then they are equally in breach. So it</p> <p>24 is their obligation to do one. And the suggestion that</p> <p>25 if they weren't working to a work programme and were</p> <p style="text-align: center;">Page 88</p>

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<p>1 already in breach then they escape the standard that</p> <p>2 they were meant to work to because they haven't worked</p> <p>3 to a work programme is easily dismissed. It makes no</p> <p>4 sense. It is relying on one's own breach to avoid its</p> <p>5 obligation.</p> <p>6 MR LEW: Is there a particular work programme that you say</p> <p>7 that they did not observe or did not follow?</p> <p>8 MR WADE: The drilling of Oyo-5 and production from it was</p> <p>9 done to a work programme, but it was not breached in the</p> <p>10 sense that the well wasn't drilled. It wasn't drilled</p> <p>11 well. The well wasn't drilled properly and wasn't</p> <p>12 completed properly and production from it wasn't</p> <p>13 produced properly.</p> <p>14 MR LEW: So are you saying that that was not done in</p> <p>15 accordance with internationally acceptable --</p> <p>16 MR WADE: Standards.</p> <p>17 MR LEW: -- standards?</p> <p>18 MR WADE: Correct.</p> <p>19 MR LEW: But that is a work programme that you say exists?</p> <p>20 MR WADE: It does exist, yes.</p> <p>21 MR LEW: And is that the only work programme you say they</p> <p>22 didn't work to?</p> <p>23 MR WADE: Yes. I am saying it's irrelevant, though. I am</p> <p>24 saying if they didn't work to a work programme, then</p> <p>25 that's their breach and they can't rely on it to escape</p> <p style="text-align: center;">Page 89</p>	<p>1 suck eggs, and cut me off if what I am saying is too</p> <p>2 simple. Probably what I am going to start is so</p> <p>3 exceptionally simple that you will regard it as mildly</p> <p>4 offensive. It is this simply this, that oil and gas</p> <p>5 deposits are contained within sedimentary rocks. The</p> <p>6 rocks are formed by sediments that are deposited in</p> <p>7 layers on the bottom of rivers, lakes and oceans, and</p> <p>8 when the sediments are deposited and compacted they do</p> <p>9 not form a solid mass. Instead, spaces or pores exist</p> <p>10 between the grains and the amount of space as</p> <p>11 a percentage of the total volume of a formation is</p> <p>12 called its porosity.</p> <p>13 That is my first basic elementary point.</p> <p>14 Formation fluids -- so oil, gas and water -- will</p> <p>15 accumulate in those pores and oil and gas will be formed</p> <p>16 from the microorganisms that lived and died in the water</p> <p>17 that formed the sedimentary basin. The larger the</p> <p>18 porosity of the rock, the more fluids, the more</p> <p>19 hydrocarbons that a formation will contain but high</p> <p>20 porosity doesn't necessarily translate to a high</p> <p>21 recovery of hydrocarbons.</p> <p>22 For the ease of extracting hydrocarbons, oil and</p> <p>23 gas, from the rock, what you want is for the rock to be</p> <p>24 permeable, and this is a point that Mr Nesbitt touched</p> <p>25 on earlier. Permeability is essentially a consequence</p> <p style="text-align: center;">Page 91</p>
<p>1 the quality of the work they should have undertaken.</p> <p>2 MR LEW: But it is only in this one area that you say here</p> <p>3 is a work programme and in following that work programme</p> <p>4 they didn't apply internationally acceptable standards?</p> <p>5 MR WADE: Correct. That's what I am saying.</p> <p>6 MR LEW: Thank you.</p> <p>7 MR WADE: With those points, I am going to hand over to</p> <p>8 Mr Gunning, who will introduce the technical aspects of</p> <p>9 this case to you.</p> <p>10 Opening submissions by MR GUNNING</p> <p>11 MR GUNNING: I was going to try to spend a few moments</p> <p>12 talking I hope in a neutral way about some of the basic</p> <p>13 features of fuel reservoirs and drilling operations</p> <p>14 before giving a short overview of the respondents'</p> <p>15 criticisms of the steps taken by NAE. I am conscious</p> <p>16 that this is an extremely experienced Tribunal and that</p> <p>17 some of the matters that I might be covering are</p> <p>18 slightly elementary, but over the course of the next few</p> <p>19 days we're going to be getting into some of the detail</p> <p>20 of the way in which the work was executed, and I wanted</p> <p>21 to be sure that you're comfortable with the underlying</p> <p>22 technical basics, so that such questions as I have</p> <p>23 aren't incapable of being understood.</p> <p>24 So forgive me if there is an element of teaching</p> <p>25 grandmothers -- I am not calling you grandmothers -- to</p> <p style="text-align: center;">Page 90</p>	<p>1 of the interconnectivity of the pores. So if the pores</p> <p>2 are well connected in a sponge, there will be high</p> <p>3 permeability. In very simple terms, the more permeable</p> <p>4 a formation, the lower the pressure difference is that</p> <p>5 is required to extract the oil.</p> <p>6 Certain types of rock are essentially impermeable.</p> <p>7 For example, shale and silty shale will be basically</p> <p>8 impermeable, and they will form sometimes a cap on</p> <p>9 a reservoir. Sandstone by comparison is typically</p> <p>10 relatively permeable and so it is sandstone formations</p> <p>11 that tend to contain the sandstone layers that will tend</p> <p>12 to contain the oil and gas. As my learned friend said,</p> <p>13 the unit of the measurement of fluid permeability is the</p> <p>14 Darcy, named after Henri Darcy, the French engineer, and</p> <p>15 when we come to look at these permeabilities you will</p> <p>16 see they are typically measured in millidarcies or MD.</p> <p>17 So that's porosity and permeability, and I was going</p> <p>18 to swiftly mention water saturation. That is typically</p> <p>19 measured so that you can work out the residual capacity</p> <p>20 of the pores to contain hydrocarbons. So if you know</p> <p>21 how much water is going to be contained in the space in</p> <p>22 the rock, then you can work out what the balance might</p> <p>23 be that could be filled with hydrocarbons. So a way of</p> <p>24 working out the volume of oil in place in a formation is</p> <p>25 you establish its volume, you establish its porosity,</p> <p style="text-align: center;">Page 92</p>

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<p>1 you establish its water saturation and then you work out</p> <p>2 what factor you apply for oil as opposed to gas</p> <p>3 extraction, and that will you give you an idea of your</p> <p>4 original oil in place in the reservoir.</p> <p>5 Now over geological time, because of the relatively</p> <p>6 buoyancy of gas over oil and oil over water, you will</p> <p>7 get a separation of layers. So as you see on the</p> <p>8 right-hand side, and this is a cutaway view of the Oyo</p> <p>9 field, you have at the top a cap of gas and then you</p> <p>10 have underneath that oil and beneath that water. And</p> <p>11 the point where the separation occurs between gas and</p> <p>12 oil is called the gas-oil contact or GOC for short,</p> <p>13 you'll see quite a bit of reference to that, and the</p> <p>14 point where the rock separates between containing oil</p> <p>15 and containing the aquifer is called the water-oil</p> <p>16 contact, or WOC. So that's a basic Noddy introduction</p> <p>17 to some of the features of a reservoir. Sorry for being</p> <p>18 basic for it.</p> <p>19 LORD HOFFMANN: Speaking for myself, I am very grateful.</p> <p>20 MR GUNNING: One of the things that you will see it is</p> <p>21 sometimes necessary to model the feature of a reservoir.</p> <p>22 And the right-hand side is an example of such -- I think</p> <p>23 that's something taken from a model, and this is done by</p> <p>24 taking a formation and dividing it into a number of grid</p> <p>25 cells, and then attributing characteristics, such as</p> <p style="text-align: center;">Page 93</p>	<p>1 area. In addition, at the very top right, there is the</p> <p>2 far east area but, as far as I understand it, that</p> <p>3 remains undeveloped.</p> <p>4 Now, what you will see is that discovery and</p> <p>5 appraisal wells were drilled by Eni in the Oyo west</p> <p>6 area, so that's Oyo-3 and Oyo-2, and that was followed</p> <p>7 by the drilling and exploration of Oyo-6. But those</p> <p>8 wells are quite some way away from the other ones.</p> <p>9 So far as the other are concerned, you will see that</p> <p>10 in 1995 BP and Statoil drilled a discovery well, Oyo-1,</p> <p>11 and then two further wells are drilled in close</p> <p>12 proximity to that. One is Oyo-4, which I think is</p> <p>13 drilled in 2007 by Eni or NAE, and ultimately that was</p> <p>14 to be used as the gas injection well for Oyo-5. But</p> <p>15 they got a certain amount of data about the formation</p> <p>16 from that. Oyo-5 was then drilled in 2009.</p> <p>17 Now, the reason why this map is slightly inaccurate</p> <p>18 is because it makes Oyo-5 look as though it is a long</p> <p>19 way away from Oyo-1 and Oyo-4. So I wondered whether --</p> <p>20 I forgot to put in this presentation -- if you are able</p> <p>21 to take out bundle 9, tab 198. (Pause).</p> <p>22 Tab 196, sorry, at page 147, you should have a page</p> <p>23 in the middle of a presentation that was prepared by</p> <p>24 Allied, which looks a little bit like that (indicates).</p> <p>25 So it is G9, tab --</p> <p style="text-align: center;">Page 95</p>
<p>1 permeability and porosity to each of those grid cells.</p> <p>2 Then, depending on the computer power of your Apple Mac,</p> <p>3 or whatever it is, you can run a simulation of what</p> <p>4 would happen if you were to start extracting oil in that</p> <p>5 formation.</p> <p>6 Now, there is a difficulty, as you will see, in</p> <p>7 terms of the level of detail that you have in each of</p> <p>8 your grid cells, because ideally -- I mean, the fluids</p> <p>9 will be flowing essentially through very small areas and</p> <p>10 small changes can make big differences, but for the</p> <p>11 purposes of preparing these models often you need big</p> <p>12 grid cells because otherwise it is impossible to do the</p> <p>13 computing for them, even with the most sophisticated</p> <p>14 computers.</p> <p>15 Now, my next slide was intended to just give you</p> <p>16 an idea of the layout of the Oyo field. I found it</p> <p>17 exceptionally difficult to find a good drawing of this</p> <p>18 in the bundles. This was the best I could find. It's</p> <p>19 in the Erin summer 2015 investor presentation. It's not</p> <p>20 actually perfect, for a reason I will point out to you,</p> <p>21 but what you can see is that the field is divided into</p> <p>22 two parts, essentially. On the right-hand side, so the</p> <p>23 west side, you have -- well, on the east side, rather,</p> <p>24 you have something which says the central area, and on</p> <p>25 the left-hand side of the screen you can see the west</p> <p style="text-align: center;">Page 94</p>	<p>1 THE CHAIRMAN: 147?</p> <p>2 MR GUNNING: Tab 196, page 147, is the pagination in the</p> <p>3 bundle.</p> <p>4 MR SHOESMITH: Page 23 of the PDF.</p> <p>5 MR GUNNING: Thank you. Now what you will see there is in</p> <p>6 the middle of the map a little star with a 1 and</p> <p>7 a little star with a 4, and those are Oyo-1 and Oyo-4,</p> <p>8 and then you can see that Oyo-5 really runs between the</p> <p>9 two. I could show you other drawings which show the</p> <p>10 same thing but that's just to make the point that if you</p> <p>11 find this a helpful map of the overall Oyo field, do</p> <p>12 bear in mind that it's not perfectly to scale.</p> <p>13 MR LEW: While you're educating us, could you tell us what</p> <p>14 is the distance in miles or kilometres from the far</p> <p>15 east, let's say, Oyo-5 to Oyo-5, part away across?</p> <p>16 MR GUNNING: I think it's probably only a couple of</p> <p>17 kilometres, 4.5, there we go.</p> <p>18 MR LEW: 4.5 kilometres, so that whole area is from one end</p> <p>19 to the other 10 kilometres?</p> <p>20 MR GUNNING: It is about 700 metres between them but</p> <p>21 I thought it was a lot lower. It is about 700 metres.</p> <p>22 It is a small distance between Oyo-5 and Oyo-1, but, as</p> <p>23 I say, you see Oyo-1 and Oyo-4 are drilled vertically</p> <p>24 and you will have seen the line for Oyo-5 is</p> <p>25 a horizontal line, so it runs between the two of them.</p> <p style="text-align: center;">Page 96</p>

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<p>1 You will also see that Oyo-7 is in quite close 2 proximity, and I think my learned friend made the point 3 that there are similarities that you would expect 4 between Oyo-7 and Oyo-5. 5 Oyo-8 is also in close proximity to those wells. 6 There are actually two wells in Oyo-8. I think it was 7 initially drilled vertically but then a horizontal 8 sidetrack was drilled, and there is a difference in the 9 recorded readings from the vertical and horizontal wells 10 which might be important a little bit further down the 11 line. 12 So that's an overview of the relevant reservoir. 13 What I want to do is then to move on to the next 14 slide and here I was going to talk a little bit about 15 the casing and the well itself. The diagram on the 16 right that you'll see there, where the text is 17 completely illegible, is a diagram of the subsea well 18 head and I put it up there just to show you essentially 19 the point that the casing runs as a series of concentric 20 pipes of different diameters, but it's like the opposite 21 of a Russian doll, I suppose, because the longest of the 22 casings will be the smallest, but it is hung from 23 a casing hanger, which is at the well head level. 24 This will be an important drawing I think probably 25 for the purposes of -- or it may be useful for you to</p> <p style="text-align: center;">Page 97</p>	<p>1 G7, tab 123. 2 The other document which is very useful is at G8, 3 tab 167, and that is the final drilling report. That 4 contains a description of what was done but also 5 provides you with guidance on how to convert certain 6 depths to other depth, a point I will come to in 7 a moment. 8 You will see from that slide that at the end of the 9 well bore there was an 8.5-inch hole that was drilled. 10 It doesn't look quite like that, because naturally you 11 don't have quite as strict a curve as that. But 12 essentially within that 8.5-inch hole there was run 13 a pre-perforated pipe with wire wrapped around it that 14 was surrounded by gravel, and because there are 15 perforations, the oil can come in from the -- because of 16 the pressure difference, the oil will seep in 17 essentially to that open hole section and up the well. 18 You will see from the image that the open hole 19 section was horizontal here. And I think from one end 20 to the other it was something metres or something like 21 that. It is quite a substantial length. 22 The end that is closest to the vertical part of the 23 well is called the heel. So, if you like, the left-hand 24 side of that diagram on the bottom left, that will be 25 called the heel, and the far end will be called the toe.</p> <p style="text-align: center;">Page 99</p>
<p>1 bear in mind when it comes to the question of 2 reciprocation, rotation, those sorts of things. Because 3 the point is made, well, you can't really reciprocate 4 the nine and five-eighths inch casing because you are in 5 close proximity to this well head and if you start 6 twisting things around and jabbering it up and down you 7 might damage the subsea well head, which is a big 8 problem on subsea well, so it wasn't an appropriate 9 thing to do. 10 In fact, as the casing was being inserted it will 11 have been reciprocated and actually was reciprocated. 12 So the issues, which was a very narrow one, and I think 13 ultimately is not going to lead anywhere, is as to 14 whether it should also have been reciprocated during the 15 period when the cement was being installed, and there is 16 a difference of view about that. 17 You will see what I've also tried to do on the 18 left-hand side of the slide is to give you an idea of 19 how the casing sizes change as you go down to various 20 depths. I found extremely useful, but you don't need to 21 look at them now, but I think for your note you might 22 find them useful, two documents. One is at G7, tab 123, 23 which is the mud logging report and contains a narrative 24 description of how the casing sizes changed and what 25 work was done as the casings were installed. So that's</p> <p style="text-align: center;">Page 98</p>	<p>1 Now, inevitable there is going to be a gap between 2 the casing and the well bore outside it. So when the 9 3 and five-eighths-inch casing is being run in a hole, the 4 hole that is drilled is actually 12 and a quarter inches 5 wide, and the casing fitted into that. And that gap, or 6 annulus, as it is called, presents a problem, because 7 unless that gap is filled in it creates a gap down which 8 gas can run from the rock that contains gas down to the 9 heel of the open hole section of the well. So in large 10 part to stop that happening cement is injected through 11 the casing and then back up into that annulus. 12 As the well bore was being drilled originally, 13 drilling fluid will have been used for a number of 14 reasons, so to clear the drill cuttings, to balance 15 fluid pressure, to create a filter cake to stop the well 16 caving in and to lubricate the drill bit. But what it 17 means is that when the casing is lowered in, the annulus 18 will be filled with mud, and the mud will be permeable 19 and so it will provide a leak path for gas from the 20 gas-oil contact down the heel of the well. 21 So when cementing the aim is to stop that happening, 22 and that brings me on to the next slide. 23 Essentially the purpose of the cement is to create 24 zonal isolation between the gas-oil contact and the heel 25 of the well.</p> <p style="text-align: center;">Page 100</p>

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<p>1 So what you try to do is you try to flush out the</p> <p>2 mud by using something called spacer fluid to start with</p> <p>3 and then the cement afterwards. But the trouble that</p> <p>4 you have, particularly in a horizontal well, is that</p> <p>5 naturally the casing is going to sag towards the bottom</p> <p>6 of the well bore. So that would obviously provide</p> <p>7 a sort of resistance which would make it more difficult</p> <p>8 to remove the mud. To stop that what are used are</p> <p>9 centralisers, and the centralisers that were actually</p> <p>10 used in this case are shown in the bottom right-hand</p> <p>11 corner, and the idea is that those will provide some</p> <p>12 separation between the casing and the walls of the well</p> <p>13 bore.</p> <p>14 Now, you will see I put an image at the top</p> <p>15 right-hand corner that shows the sort of problem you can</p> <p>16 have if you're not able to flush out the mud. You will</p> <p>17 have an area that is cemented in the annulus but then</p> <p>18 an area that contains mud in it, and that is a problem,</p> <p>19 because it is a channel down which the gas can run down</p> <p>20 to the heel if it is not cleared out.</p> <p>21 The sequence of events that you will find -- you</p> <p>22 will come across when we come to the cementing part of</p> <p>23 the case -- whenever you say we're coming to the</p> <p>24 cementing part of the case you probably just feel mildly</p> <p>25 depressed that that's what we are going to be talking</p> <p style="text-align: center;">Page 101</p>	<p>1 you imagine a kind of crook in the page coming out of G,</p> <p>2 you will have had cement coming out horizontally and</p> <p>3 pushing back and then up vertically.</p> <p>4 MR LEW: That yellow band at the top of what looks like that</p> <p>5 the well --</p> <p>6 MR GUNNING: Yes.</p> <p>7 MR LEW: -- is that the top plug?</p> <p>8 MR GUNNING: Yes, that I think is intended to show the top</p> <p>9 plug. There are some underneath it, non-return valves</p> <p>10 essentially, to stop this cement spinning back up the</p> <p>11 casing. But essentially the idea is that the top plug</p> <p>12 as it goes down will scrape off cement so you don't get</p> <p>13 a leakage of cement down the casing as you're going</p> <p>14 down.</p> <p>15 MR LEW: Then what is the central bit? You have the valve</p> <p>16 underneath it.</p> <p>17 MR GUNNING: Yes.</p> <p>18 MR LEW: Then you have got a --</p> <p>19 MR GUNNING: This is an image --</p> <p>20 MR LEW: -- darker grey.</p> <p>21 MR GUNNING: Yes, this is an image of a completed cementing</p> <p>22 operation. I wonder actually -- it might be useful just</p> <p>23 to take out this report, because it will show the</p> <p>24 process that I was describing quite clearly. It is G29,</p> <p>25 tab 17. You will find it at page 187.</p> <p style="text-align: center;">Page 103</p>
<p>1 about, but it starts off you put spacer fluid down the</p> <p>2 casing, you will then want to separate that spacer fluid</p> <p>3 from the cement that is going to follow it. So there</p> <p>4 will be something which is called a bottom dart that</p> <p>5 goes on top of it, then that will hook into a plug, and</p> <p>6 the plug with the spacer fluid beneath it will sink down</p> <p>7 the casing, cement will be on top of the bottom of the</p> <p>8 plug.</p> <p>9 The first cement that goes is called lead cement --</p> <p>10 it is not lead, it is lead cement -- and then following</p> <p>11 that tail cement will be put on top, and then there will</p> <p>12 be a top dart and a top plug, and above that there will</p> <p>13 be mud, and the mud basically forces the cement down</p> <p>14 through the annulus and then back up -- down through the</p> <p>15 casing and then back up the sides of the annulus.</p> <p>16 The diagram that I've shown you there in the middle</p> <p>17 of the page comes from an exceptional -- if you're</p> <p>18 trying to understand this in more detail</p> <p>19 an exceptionally useful description of the process in</p> <p>20 the chief counsel's report on the Macondo incident,</p> <p>21 which is bundle G29, tab 17, page 187. It is really</p> <p>22 an exceptionally clear explanation of cementing</p> <p>23 operations.</p> <p>24 Now, in this case it not quite like this image</p> <p>25 because we have a horizontal well. So in this case if</p> <p style="text-align: center;">Page 102</p>	<p>1 The section on water actually begins at page 183.</p> <p>2 That's internal page 67 of the report. The top</p> <p>3 right-hand corner of the report says page 67.</p> <p>4 THE CHAIRMAN: Sorry, that's --</p> <p>5 MR GUNNING: G29.</p> <p>6 THE CHAIRMAN: Yes.</p> <p>7 MR GUNNING: Tab 17.</p> <p>8 THE CHAIRMAN: Yes.</p> <p>9 MR GUNNING: Then in the top right-hand corner of the page,</p> <p>10 it will say "page 67".</p> <p>11 THE CHAIRMAN: Thank you.</p> <p>12 MR GUNNING: You should find the image that you have on the</p> <p>13 screen in that page. So in our bundles it is on</p> <p>14 page 183 but in the report it is internal page 67.</p> <p>15 If you go to page 187, you can see an image of -- in</p> <p>16 the bottom right-hand corner, which I just lacked the</p> <p>17 computing ability to cut out because it is a funny</p> <p>18 shape, this shows a cementing operation in progress. So</p> <p>19 you have spacer fluid with two arrows going down to</p> <p>20 those float valves at the bottom of the casing, and</p> <p>21 above that you have the bottom plug and then you have</p> <p>22 the cement, and then above that you have the top plug</p> <p>23 and then above that you have mud going down the casing.</p> <p>24 The idea is that as you push down, the bottom plug will</p> <p>25 break open and then you will continue to put pressure on</p> <p style="text-align: center;">Page 104</p>

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<p>1 the -- continuing to insert mud on top of it, so that</p> <p>2 will force the cement to come down. As it comes down,</p> <p>3 it comes out and back up. So if you look at page 188,</p> <p>4 the next page, it sort of comes up the annulus between</p> <p>5 the well bore and the casing.</p> <p>6 But the top plug should fit in position, as we see</p> <p>7 here, and essentially cap off the cement at the end of</p> <p>8 the job.</p> <p>9 Then you will want -- ultimately you will want to</p> <p>10 break is out so that you can then carry on with your</p> <p>11 drilling, but this is the process. Is that clear</p> <p>12 enough?</p> <p>13 Now, one of the things that you're going to have to</p> <p>14 consider looking forwards is whether the evidence</p> <p>15 supports our hypothesis that the relevant steps were not</p> <p>16 to carry out -- a proper cementing job were carried out</p> <p>17 by NAE, and as part of that process we will have to move</p> <p>18 on to one of the numerous logs that's kept on the</p> <p>19 project, and that brings me to my next topic, which is</p> <p>20 well logging. For present purposes, I am just going to</p> <p>21 focus on the characteristics of a well log rather than</p> <p>22 the content of any individual log.</p> <p>23 We're going to be focusing I think on two particular</p> <p>24 ones, going forwards. The first is the log that was</p> <p>25 taken from something called the segmented bond tool that</p> <p style="text-align: center;">Page 105</p>	<p>1 will put your gamma ray tools down and that will enable</p> <p>2 you to work out -- you will have a map of the gamma ray</p> <p>3 readings going all the way down. There is usually a lot</p> <p>4 of movement in the gamma ray curve, from high values to</p> <p>5 low values. So you get a very good, precise sort of</p> <p>6 fingerprint of the layout of the well.</p> <p>7 The other point is that once you have the casing in</p> <p>8 place, although the radiation measurements are reduced,</p> <p>9 they are not eliminated. So even with the casing in</p> <p>10 place you can work out what your depth is in the well</p> <p>11 bore because of the radiation measurements. So you can</p> <p>12 get an exact depth measurement once the casing is in</p> <p>13 place by comparing your cased hole gamma ray log to your</p> <p>14 open hole gamma ray log. So, in other words, you can</p> <p>15 match your log as you've been going down with casing in</p> <p>16 place against where you were when there wasn't any</p> <p>17 casing in place at all.</p> <p>18 So it's very common to find that as a kind of depth</p> <p>19 gauge in these logs.</p> <p>20 The third thing I was going to mention is that</p> <p>21 typically you will have something that indicates your</p> <p>22 depth on these logs, and typically the depth that will</p> <p>23 be shown is called the AHD or a long hold depth. That</p> <p>24 is not the same as the true vertical depth because the</p> <p>25 well is going down and across and then horizontal.</p> <p style="text-align: center;">Page 107</p>
<p>1 you will have read about, the SBT, and that was sent</p> <p>2 down the well in December 2009, and it was used to</p> <p>3 assess the quality -- or meant to be used to assess the</p> <p>4 quality of the cement job before the open hole was</p> <p>5 drilled out.</p> <p>6 The second log that we will be looking at is the log</p> <p>7 taken from the production logging tools in</p> <p>8 December 2010, which showed where gas was coming into</p> <p>9 the producing part of the well.</p> <p>10 But the points I wanted to draw your attention to at</p> <p>11 the moment are these. The first is when you look at</p> <p>12 these logs they will have these sort of characteristics.</p> <p>13 There will be a series of columns and each of those</p> <p>14 columns is called in the industry, as I understand it,</p> <p>15 a track. So when there is talk about tracks, the first</p> <p>16 track, it will be the left-hand column.</p> <p>17 The second point is that very commonly you will find</p> <p>18 that the first track will show something, as you'll see</p> <p>19 here, called the gamma ray recording, and the gamma ray</p> <p>20 tools measure the naturally occurring radiation in the</p> <p>21 well bore. They provide a very good indication of the</p> <p>22 presence of shale, as it happens, but more importantly</p> <p>23 they provide a record against which you can then</p> <p>24 correlate your depth in the well bore once the casing is</p> <p>25 in place. So before you have put the casing in, you</p> <p style="text-align: center;">Page 106</p>	<p>1 What I have tried to do on this slide is to give you</p> <p>2 some useful figures going forward which identify for you</p> <p>3 the long hole depth of the gas-oil contact, and then its</p> <p>4 comparative true vertical depth, and also something</p> <p>5 called TVDSS, that is true vertical depth subsea. True</p> <p>6 vertical depths are often corrected to allow for the</p> <p>7 elevation above the mean sea level of the depth</p> <p>8 reference point of the well, and there was a 26-metre</p> <p>9 difference in relation to these measurements.</p> <p>10 Then I have given you also the end of the 9 and</p> <p>11 five-eighths-inch casing, you can find out where that</p> <p>12 is, and then the end of the 8.5-inch hole. So when</p> <p>13 I said the horizontal hole was about 600 metres long,</p> <p>14 you can see it is the difference the AHD measurements on</p> <p>15 that table.</p> <p>16 The final point I was going to make about logs is</p> <p>17 that you will see that they record different information</p> <p>18 about different characteristics of the well in different</p> <p>19 tracks but they also sometimes contain different</p> <p>20 information in different scales within the same track.</p> <p>21 So if you look in the track 1, we have gamma ray</p> <p>22 readings. We also have minimum delta T and maximum</p> <p>23 delta T readings, and also we have differential tension</p> <p>24 readings. They are all to different scales, they are</p> <p>25 all measuring different things, but they are all on the</p> <p style="text-align: center;">Page 108</p>

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<p>1 same track.</p> <p>2 That brings me on to the next slide, which is the</p> <p>3 next topic along, which is about producing from the</p> <p>4 well. The way that oil is produced in a well is through</p> <p>5 the pressure difference between the reservoir and the</p> <p>6 well bore. The pressure difference causes oil and gas</p> <p>7 and water to expand out of the rock and into the well,</p> <p>8 and the pressure difference between the bottom and the</p> <p>9 top of the well causes the oil, gas and water to expand</p> <p>10 upwards. That pressure difference is affected by the</p> <p>11 choke, and choke measurements are typically given in</p> <p>12 64ths of an inch, and that is the diameter of the choke</p> <p>13 incidentally. It's not the radius, it's the diameter of</p> <p>14 it. So there is a connection anyway between choke size,</p> <p>15 pressure difference and flow through a well.</p> <p>16 MR LEW: What did you say the width was?</p> <p>17 MR GUNNING: The diameter of the choke will just be called</p> <p>18 the choke measurement.</p> <p>19 MR LEW: You said typically the size --</p> <p>20 MR GUNNING: It will be measured in 64ths of an inch.</p> <p>21 MR LEW: 64th?</p> <p>22 MR GUNNING: Of an inch, exactly. So when you see 18</p> <p>23 64ths -- my maths has failed me. I should have chosen</p> <p>24 something simple like 32/64ths, it would be half an</p> <p>25 inch. Sorry about that.</p> <p style="text-align: center;">Page 109</p>	<p>1 naturally occurring level of gas in the oil, regardless</p> <p>2 of any incursion from the gas cap. Indeed, the</p> <p>3 expansion of that gas helps to force the oil up the oil</p> <p>4 well, because the gas will tend to expand I think more</p> <p>5 than oil will expand when you go to a different pressure</p> <p>6 level.</p> <p>7 The natural level of the GOR, or gas-oil ratio, in</p> <p>8 the Oyo-5 well was measured in a pressure volume</p> <p>9 temperature analysis, which was done in October 2009,</p> <p>10 and the natural level was found then to be 649 standard</p> <p>11 cubic feet per barrel. So if you had that level of</p> <p>12 gas-oil ratio it wouldn't necessarily ring any alarm</p> <p>13 bells because you would be expecting that to exist</p> <p>14 naturally within the formation.</p> <p>15 Another point to make is that as the pressure in the</p> <p>16 reservoir reduces, there will come a point where gas</p> <p>17 will naturally bubble out of the oil, and that's called</p> <p>18 the bubble point pressure. Where that happens it means</p> <p>19 that gas can enter the oil stream from further down the</p> <p>20 oily part of a formation. So once that happens, once</p> <p>21 you pass the bubble point pressure, you would naturally</p> <p>22 expect the gas-oil ratio to increase to some extent.</p> <p>23 But there's a quite separate process, which it is</p> <p>24 very important to understand in this case, because it</p> <p>25 I think explains in substantial measure one of the</p> <p style="text-align: center;">Page 111</p>
<p>1 Anyway. When the fluids emerged from the well they</p> <p>2 have to be separated out and the quantities of fluids</p> <p>3 will be measured using a separator, and here one of the</p> <p>4 stories that you will come across is that there were</p> <p>5 meant to be two separators, two functioning separators</p> <p>6 on the FPSO, a test separator and a production</p> <p>7 separator. But the fact that there was only one working</p> <p>8 meant that actually the entirety of the streams coming</p> <p>9 from Oyo-6 and Oyo-5 were being joined together before</p> <p>10 separation. We'll have to examine what the consequence</p> <p>11 of that are for the reliability of some of the data that</p> <p>12 we have.</p> <p>13 Finally, I have also given the units of measurement</p> <p>14 that you will come across in the right-hand side.</p> <p>15 I found that helpful to have a note of those. They are</p> <p>16 relatively obvious when you know them. I don't think</p> <p>17 there is any significant difference between a stock tank</p> <p>18 barrel and a barrel. I think they amount to the same</p> <p>19 thing, but sometimes it is STB and sometimes it is BBL.</p> <p>20 The comparison, though, of the volume of gas that is</p> <p>21 taken at the separator to the volume of oil gives</p> <p>22 a gas-oil ratio, and that will be measured in standard</p> <p>23 cubic feet per barrel. Standard cubic feet of gas per</p> <p>24 barrel of oil.</p> <p>25 And it is important to understand that there is</p> <p style="text-align: center;">Page 110</p>	<p>1 things that went wrong, which is gas coning. That is</p> <p>2 a manner by which gas can migrate from the gas cap into</p> <p>3 the production stream. It is called gas coning because</p> <p>4 the gas literally cones down from the gas cap, when the</p> <p>5 buoyancy forces that are keeping the gas layer separate</p> <p>6 are overcome. There's going to be quite a lot of</p> <p>7 evidence about this process. But I would just flag two</p> <p>8 points.</p> <p>9 The first, and perhaps I found most unexpected</p> <p>10 point, until it was explained to me, is that gas coning</p> <p>11 is most likely to occur where the permeability is lower.</p> <p>12 The lower the permeability the more likely you are to</p> <p>13 have gas coning. The reason for that is where the</p> <p>14 permeability is lower, a greater pressure difference is</p> <p>15 required to extract the oil. So that greater pressure</p> <p>16 difference results in a greater likelihood of in effect</p> <p>17 sucking the gas from the gas cap into the production</p> <p>18 stream.</p> <p>19 The second thing, though, which is the opposite end</p> <p>20 of that, is that the gas will tend to cone through areas</p> <p>21 that are more permeable. So although it takes lower</p> <p>22 permeabilities to cause the coning to occur, it will</p> <p>23 tend to come through the more permeable bits.</p> <p>24 So those are the technical features I thought</p> <p>25 I would take you to and that brings me on swiftly to</p> <p style="text-align: center;">Page 112</p>

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<p>1 what it is that we complain about.</p> <p>2 I think those fall basically into three topics, the</p> <p>3 third, which is flaring, we can take quickly, because</p> <p>4 you will see in due course the plan was that 98 per cent</p> <p>5 of the gas that came out of Oyo-5 was intended to be</p> <p>6 reinjected into Oyo-4, but because of the high volumes</p> <p>7 of gas that were being produced and the unavailability</p> <p>8 of compressors on the FPSO that didn't happen, and as</p> <p>9 a result a lot of the gas had to be flared off, and</p> <p>10 although it is a matter that Mr Wade will be dealing</p> <p>11 with the claimant agreed to indemnify the respondent</p> <p>12 against the fines that were incurred in relation to</p> <p>13 that. So that's flaring.</p> <p>14 Cementing and production. What we say in relation</p> <p>15 to these is essentially that NAE went about the</p> <p>16 cementing and management of production in</p> <p>17 an uncontrolled and inappropriate manner, and then it</p> <p>18 failed to respond promptly or at all to the evidence of</p> <p>19 problems by taking appropriate remedial action.</p> <p>20 So that's the essence of our case. I'm not going to</p> <p>21 take any of the evidence for granted. This is the</p> <p>22 opening submissions, so you haven't heard the facts yet.</p> <p>23 MR LEW: You are stating the case and you are saying that</p> <p>24 it's failure to achieve zonal isolation and to recognise</p> <p>25 the shortcoming in the cement job, that you say was in</p> <p style="text-align: center;">Page 113</p>	<p>1 comply with that.</p> <p>2 The third thing is that NAE then undertook</p> <p>3 an examination of the quality of the cement using</p> <p>4 a segmented bond tool before proceeding to drill out the</p> <p>5 open hole section but they seemed to have done the</p> <p>6 drilling without paying any sufficient regard to what</p> <p>7 the segmented bond tool analysis showed. If they had</p> <p>8 examined it properly, they would have realised that it</p> <p>9 showed bad cement in the material area, which is from</p> <p>10 the gas cap or the gas-oil contact point down to the</p> <p>11 heel, and that remedial work was required. But they</p> <p>12 didn't do that and so a leak path was permitted to</p> <p>13 remain in place between the gas cap and the well.</p> <p>14 So that's what we say, and we say that was not in</p> <p>15 accordance with internationally acceptable standards.</p> <p>16 That takes me on to the second area of criticism,</p> <p>17 which is the management of production. I think there</p> <p>18 are likely to be six questions that you have to consider</p> <p>19 here.</p> <p>20 The first is, was it important for the production of</p> <p>21 oil from Oyo-5 to be carefully managed? It's the</p> <p>22 commencement of production to be carefully managed?</p> <p>23 The second is, did NAE develop a suitable plan for</p> <p>24 opening up the well?</p> <p>25 The third is, what, if any, arrangements did they</p> <p style="text-align: center;">Page 115</p>
<p>1 breach of industry practice?</p> <p>2 MR GUNNING: Yes, we do say that. We do.</p> <p>3 In relation to cementing there are going to be four</p> <p>4 questions that you are going to want to consider at the</p> <p>5 end of the case. The first is -- and it is unlikely to</p> <p>6 controversial -- was the quality of the cementing of the</p> <p>7 nine and five-eighths inch casing an important process</p> <p>8 for the completion of the Oyo-5 well? That's the first</p> <p>9 question.</p> <p>10 The second is, how did NAE plan to execute the</p> <p>11 cement job?</p> <p>12 The third is, did NAE depart from that plan when</p> <p>13 executing the cement job and, if so, how and in what</p> <p>14 respects did it depart from the plan?</p> <p>15 Then the final question you're likely to ask</p> <p>16 yourselves is, what steps did NAE take to satisfy itself</p> <p>17 at the end of the process as to the quality of the job,</p> <p>18 and what conclusions should it have reached about it?</p> <p>19 What I hope to show you, I'm not taking you for</p> <p>20 granted, is that the cement job was extremely important.</p> <p>21 It was essential, as we've seen, to ensure zonal</p> <p>22 isolation between the gas cap and the heel of the open</p> <p>23 hole section of the well.</p> <p>24 Secondly, NAE did have a plan of sorts which was</p> <p>25 prepared with or by Schlumberger but then it failed to</p> <p style="text-align: center;">Page 114</p>	<p>1 have in place to enable them to monitor production as</p> <p>2 the well was opened up?</p> <p>3 The fourth point is, taking those arrangements, if</p> <p>4 any, into account, did they control the opening of the</p> <p>5 well sufficiently cautiously?</p> <p>6 Then, fifthly, when problems were discovered, how</p> <p>7 did they respond?</p> <p>8 Then the final one, was that response sufficiently</p> <p>9 prompt?</p> <p>10 What I hope we will show you through the evidence on</p> <p>11 these topics is that they knew or ought to have known</p> <p>12 that it was extremely important to manage the production</p> <p>13 process carefully to prevent gas entering the production</p> <p>14 screen, because they knew the proximity of the gas cap.</p> <p>15 They knew that.</p> <p>16 The second is they don't appear to have had</p> <p>17 a satisfactory plan for the opening up of the well, and</p> <p>18 they appeared to have targeted a production rate of</p> <p>19 around about 15,000 or 17,000 barrels of oil per day,</p> <p>20 which they should have realised could give rise to</p> <p>21 an early gas incursion.</p> <p>22 The third thing is that they were lacking basic</p> <p>23 information about the performance of the wells at the</p> <p>24 time that they opened them up. So they weren't able to</p> <p>25 monitor the performance accurately and so didn't control</p> <p style="text-align: center;">Page 116</p>

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<p>1 the opening up of the wells appropriately.</p> <p>2 Then within a week or so of opening up the well, the</p> <p>3 gas-oil ratio had risen to levels which suggest a gas</p> <p>4 incursion. They were way above that level -- or they</p> <p>5 began to be consistently above the natural GOR that you</p> <p>6 would expect, but they didn't do anything about that for</p> <p>7 about six months. Indeed, the action that they</p> <p>8 ultimately took was to undertake a work-over sequence in</p> <p>9 December 2010 to January 2011, which comprised using</p> <p>10 a production logging tool and then a gas shut-off</p> <p>11 operation. But by that time it is clear, I think, that</p> <p>12 gas coning had occurred and the GSO operation that was</p> <p>13 undertaken was not able to rectify the problem of gas</p> <p>14 incursion.</p> <p>15 Now, we can see some of the difficulties that were</p> <p>16 experienced in the aftermath of opening up the well in</p> <p>17 the next slide, which shows the declining rate of</p> <p>18 production from Oyo-5. Red against a scale of thousands</p> <p>19 of barrels on the left is the number of barrels that</p> <p>20 were being produced per day from 5 December onwards. So</p> <p>21 there's a spike to start with for a small number of</p> <p>22 days, then it relentlessly falls downwards. But running</p> <p>23 across that you have a continually increasing gas</p> <p>24 production rate and gas-oil ratio.</p> <p>25 You will notice at the top of the black line is</p> <p style="text-align: center;">Page 117</p>	<p>1 to go to. So there's a dispute on the expert evidence</p> <p>2 what you can draw from that. But certainly this would</p> <p>3 be consistent with poor cementing.</p> <p>4 But what you will also see is that the gas incursion</p> <p>5 was not limited to the heel. The measurements are</p> <p>6 not -- so that's at the first 20 metres or so from the</p> <p>7 heel you have a lot of gas going in, and then you have</p> <p>8 a little patch which is running for about another</p> <p>9 70 metres or so, where there is gas coming in but not so</p> <p>10 much. Then you get to the next little patch, which is</p> <p>11 about a 10 or 11-metre patch, where again you have a lot</p> <p>12 of gas coming in and so on.</p> <p>13 What this shows is that as you go further down the</p> <p>14 production part of the well, you have gas coming in</p> <p>15 which is evidence of gas coning. So that is what was</p> <p>16 discovered to be the position as at December 2010.</p> <p>17 That leads me to the gas shut-off. You can see the</p> <p>18 effect of the gas shut-off on this slide. You have to</p> <p>19 read it with a little bit of care because in the middle</p> <p>20 of it what you see is a period where the gas rate slumps</p> <p>21 to a very low level, or the gas-oil ratio slumps to</p> <p>22 a very low level. That's because the well was shut off.</p> <p>23 It was closed for a substantial period before the GSO</p> <p>24 operation was carried out. So there is a little spike</p> <p>25 as that's happening but then it falls down.</p> <p style="text-align: center;">Page 119</p>
<p>1 shown the choke settings at the time that those</p> <p>2 measurements were taken. So as the choke settings</p> <p>3 increased, you can see that there were increases in the</p> <p>4 gas amount and the gas-oil risk.</p> <p>5 Now, a snapshot of the gas ingress into the</p> <p>6 producing part of the well can be seen from this image,</p> <p>7 which is the result of the production logging tool</p> <p>8 analysis in December 2010. What it shows is that</p> <p>9 over -- if you look at the right-hand side, the green</p> <p>10 blocks represent the proportion of all oil. Red blocks</p> <p>11 represent the proportion of gas. Blue will be water.</p> <p>12 So there is very little water coming in for the first</p> <p>13 seven or so rows, but the very first row is at the heel</p> <p>14 of the production part of the well. What you are seeing</p> <p>15 there is a very high amount of gas incursion coming in</p> <p>16 through there.</p> <p>17 Now, you're going to have to consider -- there is</p> <p>18 a dispute on the expert evidence about this -- whether</p> <p>19 that evidences the likelihood that there was a channel</p> <p>20 running down from the gas-oil contact down through the</p> <p>21 casing, because this is the first point where that would</p> <p>22 be expected to come in, is at the heel of the well.</p> <p>23 Equally it will be said that the pressure difference</p> <p>24 is always going to be greatest at the heel of the well,</p> <p>25 and so it is the most natural place for the gas coning</p> <p style="text-align: center;">Page 118</p>	<p>1 But what you can see essentially is that after the</p> <p>2 GSO the amount of oil that was being recovered continued</p> <p>3 to decline and the gas-oil ratio continued to increase.</p> <p>4 So the GSO was not successful in the sense of stemming</p> <p>5 the problem of gas incursion. I don't think there is</p> <p>6 any dispute about that.</p> <p>7 Now, that leads me to the final point that I was</p> <p>8 going to make, which is on the question of causation.</p> <p>9 Here NAE, through its expert Mr Filippi, runs the</p> <p>10 argument that in effect the gas incursion and the change</p> <p>11 in GOR rates and so on were essentially unavoidable, and</p> <p>12 they say the characteristics of the well and its</p> <p>13 proximity to the gas-oil contact meant that there was</p> <p>14 always going to be gas coning. I think their evidence</p> <p>15 will be to the effect that their model shows that</p> <p>16 serendipitously for NAE by opening it up rather</p> <p>17 aggressively or quickly they happened to achieve the</p> <p>18 optimal economic recovery. We will have to look at that</p> <p>19 evidence fairly carefully. But this chart provides</p> <p>20 a comparison of the consequences of managing all four of</p> <p>21 the active wells, Oyo-5, 6, 7 and 8. And when you do</p> <p>22 look at these charts you do need to be very careful</p> <p>23 about the scale. Because sometimes these are shown to</p> <p>24 a log scale on the left-hand side, which completely</p> <p>25 masks the differences between the wells. But Oyo-5 is</p> <p style="text-align: center;">Page 120</p>

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<p>1 the red one and it shows how the GOR changed for the</p> <p>2 cumulative barrels of oil, and it shoots up basically,</p> <p>3 and, indeed, it goes off the scale on this particular</p> <p>4 chart. It goes up to in excess of 20,000 standard cubic</p> <p>5 feet per barrel.</p> <p>6 By contrast what you have there is Oyo-6, which is</p> <p>7 bumbling along at a much lower level. Oyo-6 doesn't</p> <p>8 even have an associated gas cap, so it is not really</p> <p>9 comparable, and you wouldn't be expect it to be behaving</p> <p>10 in the way of Oyo-5. But of interest is the fact that</p> <p>11 Oyo-7 and Oyo-8, which are in the same reservoir but</p> <p>12 being managed with a lower rate of production, are not</p> <p>13 showing the same gas-oil ratio at all.</p> <p>14 So what this shows, I invite you to draw from it, is</p> <p>15 that actually more cautiously managed there did not need</p> <p>16 to be this huge gas incursion or gas-oil ratio, and</p> <p>17 those things have not happened on Oyo-7 and Oyo-8.</p> <p>18 I think my learned friend took you to a slide on Oyo-7</p> <p>19 for the purpose of saying look at the purpose of this</p> <p>20 the gas -- the oil recovery is reducing. Be careful</p> <p>21 with that slide because you need to take into account he</p> <p>22 chock sizes as that was happening, and the choke sizes</p> <p>23 change in Oyo-7, and those explain the production.</p> <p>24 If you're looking at the GOR, which is also on the</p> <p>25 slide, you need to look at it by comparison to the GOR</p> <p style="text-align: center;">Page 121</p>	<p>1 novation question and exclusions of liability, which</p> <p>2 have been touched upon. After that, I will make some</p> <p>3 comments about NAE's adjustment claim against Allied,</p> <p>4 and I will not deal with the deferred payments claim at</p> <p>5 the moment, because it is subject still -- well, much of</p> <p>6 the debate is subject still to the court's decision, and</p> <p>7 that is pending, but also because the issues have been</p> <p>8 addressed in submissions and probably don't need to be</p> <p>9 repeated at this time.</p> <p>10 Again, if there are any questions, of course I will</p> <p>11 be happy to answer them.</p> <p>12 So on the slide presentation you see a copy of</p> <p>13 an agreed table from the agreed witness statement, the</p> <p>14 agreed quantum expert report. I must tell you now that</p> <p>15 this is the agreed statement that will change because</p> <p>16 Mr Moy's revision will result in some changes to the</p> <p>17 quantum model, and I will touch on that in more detail</p> <p>18 in a minute. But I understand that the figures on the</p> <p>19 bottom three left-hand rows and the total will change.</p> <p>20 It doesn't matter for current purposes how they will</p> <p>21 change but I just wanted to make it clear that that is</p> <p>22 about to change.</p> <p>23 The issue of quantum gladly, perhaps, is one of less</p> <p>24 complexity than the technical issues, and we are</p> <p>25 indebted to the services of both sides' quantum experts</p> <p style="text-align: center;">Page 123</p>
<p>1 on Oyo-5, and you can see from this that the profile is</p> <p>2 really completely different.</p> <p>3 So in short, what we say is that if the production</p> <p>4 had been managed more cautiously and if there hadn't</p> <p>5 been a leak down this cementing, then the problems that</p> <p>6 were encountered (inaudible) could have been avoided.</p> <p>7 That's the end of my section. I'm sorry for ...</p> <p>8 MR WADE: So that was in the end of the interesting section,</p> <p>9 and I wonder if we might have a convenient break now for</p> <p>10 a cup of coffee and to relieve the transcribers?</p> <p>11 THE CHAIRMAN: Yes. Shall we take 15 minutes? By the way,</p> <p>12 to the extent we've used PowerPoints or whatever, if you</p> <p>13 can send those on electronically to the Tribunal that</p> <p>14 would be appreciated. We will see you back in</p> <p>15 15 minutes.</p> <p>16 (3.05 pm)</p> <p>17 (A short break)</p> <p>18 (3.18 pm)</p> <p>19 MR WADE: May I?</p> <p>20 THE CHAIRMAN: Yes, please.</p> <p>21 MR WADE: So Mr Gunning has just shown us the inevitable</p> <p>22 consequences of the failure to manage production from</p> <p>23 Oyo-5, and in the next few moments I plan to spend some</p> <p>24 time talking about the financial consequences and effect</p> <p>25 of that, followed by a few brief comments on the deed of</p> <p style="text-align: center;">Page 122</p>	<p>1 in that regard because there is almost more common</p> <p>2 ground between them than there are matters which</p> <p>3 separate them.</p> <p>4 The most important common ground between them is</p> <p>5 that both experts agree that Mr Taylor's model properly</p> <p>6 models the PSC and properly reflects the manner in which</p> <p>7 the losses caused to the counter-claimants and their</p> <p>8 affiliates result from NAE's breaches of the PSC. And</p> <p>9 I should say, if proven, because that is not a matter</p> <p>10 for the quantum experts but they are assessing the</p> <p>11 economic consequences of the breach.</p> <p>12 So they agree on how you should -- or how the</p> <p>13 damages should be calculated in this case. You will see</p> <p>14 as a result on the columns on each side it predicts for</p> <p>15 both parties. Both parties' experts predict that damage</p> <p>16 had occurred to Allied. There is a magnitude of</p> <p>17 difference between them but it's nevertheless</p> <p>18 an interesting feature of the claimants' case that even</p> <p>19 on their best case scenario they predict a loss to the</p> <p>20 counter-claimants resulting from the breaches which are</p> <p>21 alleged.</p> <p>22 In our submission, that's an unusual feature of this</p> <p>23 case and it's a signpost for the Tribunal as to where</p> <p>24 we're going to end up, and the big question we say is</p> <p>25 going to be not was there a breach but how much damage</p> <p style="text-align: center;">Page 124</p>

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<p>1 has resulted from the breach.</p> <p>2 The other points which I would like to tell you</p> <p>3 about in relation to this model are the points of</p> <p>4 disagreement. The first and most important point of</p> <p>5 disagreement between the parties is which input goes</p> <p>6 into this model to calculate the loss? Dr Moy's</p> <p>7 production forecasts, are they input into the model, in</p> <p>8 which case you get the damage subject to the change</p> <p>9 which is on the left-hand side of the table, or do you</p> <p>10 input Mr Filippi -- is it Mr Filippi?</p> <p>11 MR NESBITT: Mr Filippi, I was also mispronouncing it.</p> <p>12 MR WADE: So Mr Filippi's model would result in the damages</p> <p>13 on the right-hand side of that table.</p> <p>14 The second big point of disagreement or the point of</p> <p>15 disagreement which has a big financial impact is the</p> <p>16 timing in which Oyo-8 or the replacement wells Oyo-7 and</p> <p>17 Oyo-8 would have been drilled in the "but for" world.</p> <p>18 That is a point of disagreement which Mr Nesbitt has</p> <p>19 already highlighted, and I am repeating that to say that</p> <p>20 it has a big financial consequence as well. The earlier</p> <p>21 they would have been drilled, the greater the income in</p> <p>22 the "but for" world that the counter-claimants would</p> <p>23 have made, and the later the less income they would have</p> <p>24 made in the "but for" world. So that's a point on which</p> <p>25 they disagree and it has a significant impact on the</p> <p style="text-align: center;">Page 125</p>	<p>1 THE CHAIRMAN: In fact because they were higher prices</p> <p>2 a couple of years ago.</p> <p>3 MR WADE: Correct. But it's more a question of quantities</p> <p>4 than the price of oil, as I understand it.</p> <p>5 MR LEW: I think my point about quantities is that the oil</p> <p>6 is still there. Even if you seek to produce it two or</p> <p>7 three years later, you might produce a greater amount</p> <p>8 but you're still able to produce the same amount --</p> <p>9 MR GUNNING: But you receive the money later, and so if</p> <p>10 you're doing a net current value for it, it will</p> <p>11 discount in the cash flow later and you will get</p> <p>12 a lesser amount than it's current -- I think that's</p> <p>13 probably part of --</p> <p>14 MR WADE: The experts will tell us, but I also understand</p> <p>15 that pressure depletes from the field over time and the</p> <p>16 later you drill a well, the less you can extract from it</p> <p>17 in the circumstances where a well is producing.</p> <p>18 The difference between the parties is that the</p> <p>19 counter-claimants say that in circumstances where "but</p> <p>20 for" world Oyo-5 was producing an income stream for</p> <p>21 them, they would have hurried up and girdled their loins</p> <p>22 and drilled a new well to increase production from the</p> <p>23 field and they would have no reason to delay at all</p> <p>24 their production -- their drilling plans. But in the</p> <p>25 real world they had to raise finance and the drilling of</p> <p style="text-align: center;">Page 127</p>
<p>1 damages.</p> <p>2 MR LEW: Just explain that to me. You say if the well had</p> <p>3 been dug earlier, profits would have come through</p> <p>4 earlier.</p> <p>5 MR WADE: Correct.</p> <p>6 MR LEW: If the well has not been dug, the resource is still</p> <p>7 there.</p> <p>8 MR WADE: The resource is still there, but there is a time</p> <p>9 limit within which we look at this partially because of</p> <p>10 the length of the leases and partially -- that's it,</p> <p>11 I think, it is the length of the leases I think which</p> <p>12 govern the amount of money that could have been made out</p> <p>13 of the leases. So we're looking up until 2021.</p> <p>14 If the wells were sunk in 2012, then there would</p> <p>15 have been more income -- it doesn't actually matter so</p> <p>16 much because of the depletion of the oil from the wells</p> <p>17 over time and they both deplete before the end of the</p> <p>18 lease. But I am just being pointed out that there is</p> <p>19 also a discounting cash flow element to the timing of</p> <p>20 the well. The earlier you are producing, the more</p> <p>21 income you can make from it.</p> <p>22 THE CHAIRMAN: Is there any effect in the changing price in</p> <p>23 oil?</p> <p>24 MR WADE: There will be an effect, yes, but that has been</p> <p>25 taken into account --</p> <p style="text-align: center;">Page 126</p>	<p>1 the new wells was delayed.</p> <p>2 Mr Filippi says there is no reason for any</p> <p>3 difference in the "but for" and the real world as to</p> <p>4 when the new wells would have been drilled.</p> <p>5 The third question on which there is a disagreement</p> <p>6 between the experts is the question on whether Allied</p> <p>7 did or did not suffer loss on the transfer of its</p> <p>8 interest to CPL. That is reflected in the second line</p> <p>9 from the top, where Mr Taylor models a lot of</p> <p>10 28 million, whereas Mr Filippi says that the</p> <p>11 counter-claimant -- that Allied in particular made</p> <p>12 a profit of 4.7 million on the sale of the interest on</p> <p>13 to CPL.</p> <p>14 That, with your permission, is as far as I want to</p> <p>15 take the issue of quantum at this time.</p> <p>16 So moving on to the question of the deed of novation</p> <p>17 and, as I mentioned before, there are two elements to</p> <p>18 this now. One which was presented by Mr Shoesmith and</p> <p>19 which we do not address today and the other relates to</p> <p>20 the third deed of novation. The majority of the</p> <p>21 Tribunal will remember, as mentioned before, that this</p> <p>22 was an issue that you have already dealt with and</p> <p>23 decided in the first preliminary issues hearing that we</p> <p>24 held some two years ago now.</p> <p>25 Although the claimants tell us that this is an issue</p> <p style="text-align: center;">Page 128</p>

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<p>1 which you haven't decided because you didn't make</p> <p>2 a ruling on it specifically, the finding that you did --</p> <p>3 the ruling that you did make was at paragraph 241 of</p> <p>4 your award, and by a majority then you decided that</p> <p>5 clause 11.1 of the SPA:</p> <p>6 "... does require the claimant to indemnify Allied</p> <p>7 in respect of pre-economic debt liabilities, including</p> <p>8 under the PSC losses suffered by Allied and its</p> <p>9 affiliates, subject to the limitations and under</p> <p>10 provisions of the SPA."</p> <p>11 You may recall, although you didn't say so expressly</p> <p>12 here, that that was in response to arguments that the</p> <p>13 counter-claimants should not be allowed to rely on</p> <p>14 claims under clause 11.1 because of the effect of the</p> <p>15 third novation.</p> <p>16 So this, in our submission, is the starting point.</p> <p>17 From here you start and you don't need to revisit the</p> <p>18 novation point at all. This is your fixed point of</p> <p>19 reference for starting and analysing the SPA.</p> <p>20 You already have our arguments in a sense, because</p> <p>21 you've heard them and they are recorded -- both oral</p> <p>22 arguments and our written arguments are before you. But</p> <p>23 in case it is necessary, then the real arguments don't</p> <p>24 change at all.</p> <p>25 This is a case by the way that NAE has run not only</p> <p style="text-align: center;">Page 129</p>	<p>1 they are entitled to an indemnity of any losses they</p> <p>2 have suffered, including as a result of breaches of the</p> <p>3 PSC by themselves and by their affiliates. That, of</p> <p>4 course, answers, and I do so without the necessary</p> <p>5 detail at the moment, but it also answers the question</p> <p>6 of whether it is right or wrong that CPL didn't bring</p> <p>7 a case in its own name in these proceedings.</p> <p>8 Under clause 11.1 it doesn't need to and, therefore,</p> <p>9 it didn't, but there would be a question of whether it</p> <p>10 would be allowed to under the SPA. But the SPA</p> <p>11 expressly allows Allied to recover CPL's losses, and</p> <p>12 that is, of course, part of the allocation of</p> <p>13 liabilities between the parties to the particular</p> <p>14 contract. But they were also contemplating expressly</p> <p>15 the inter-group and intra-group liabilities, and they</p> <p>16 were thinking the losses aren't all going to accrue to</p> <p>17 Allied, and so Allied is entitled to claim in respect of</p> <p>18 its affiliates. That is expressly recorded in the SPA</p> <p>19 but also in your award. That is the point from which we</p> <p>20 start in this part of the proceedings.</p> <p>21 The third argument we made in our pre-hearing</p> <p>22 submission -- preliminary point, sorry, in our</p> <p>23 preliminary issues submissions to you, which you might</p> <p>24 recall, of course, was that the deed of novation was</p> <p>25 a forward-looking document, and we analysed clause 2,</p> <p style="text-align: center;">Page 131</p>
<p>1 before you and failed. They ran it again before the</p> <p>2 High Court in their jurisdictional challenge in</p> <p>3 an attempt to reverse your ruling on the grounds of</p> <p>4 jurisdiction, and there they failed too. So if we are</p> <p>5 now going at the third bite at this particular cherry,</p> <p>6 then we will meet that challenge as necessary.</p> <p>7 The key points are that the SPA itself operates as</p> <p>8 an allocation of liabilities or does contain</p> <p>9 an allocation of liabilities between Allied and NAE, and</p> <p>10 that allocation of liability was very carefully</p> <p>11 negotiated and executed.</p> <p>12 And the novation by contrast was just a mechanical</p> <p>13 vehicle by which the transfer of the duties of NAE under</p> <p>14 the PSC was moved to Allied. So you will recall,</p> <p>15 perhaps, that under the deed of novation -- sorry, I am</p> <p>16 not flicking ahead fast enough -- the key provision</p> <p>17 which allowed you to conclude that the deed of novation</p> <p>18 didn't affect the allocation of liabilities between the</p> <p>19 parties was clause 3, which expressly says that nothing</p> <p>20 in this deed of novation affects the rights between</p> <p>21 Allied and NAE as agreed in the SPA.</p> <p>22 Those rights as between Allied -- hopefully I'm</p> <p>23 going backwards to the right place -- those rights as</p> <p>24 agreed between Allied and NAE are those which you</p> <p>25 determined in relation to 11.1 that they can claim that</p> <p style="text-align: center;">Page 130</p>	<p>1 and we looked also -- and just stop me if this is not</p> <p>2 just sparking memories for you but you want to go to the</p> <p>3 provisions, we looked at the provisions of clause 2 of</p> <p>4 the deed of novation, all of which is forward-looking,</p> <p>5 the language of all of which is forward-looking, and we</p> <p>6 looked at the exclusion of Article 17.2 of the PSC,</p> <p>7 which you may recall.</p> <p>8 Do we have that on a slide? No, we don't.</p> <p>9 And Article 17.2 of the PSC is an Article under</p> <p>10 which NAE would remain liable for the PSC going forward,</p> <p>11 not only retrospectively but prospectively as well and,</p> <p>12 therefore, in line with the allocation of liabilities</p> <p>13 from the pre-and post-economic dates, so from the</p> <p>14 economic date the prospective liabilities of NAE were</p> <p>15 expressly excluded by excluding the effect of</p> <p>16 Article 17.2 to the PSC.</p> <p>17 I am conscious that for you Lord Hoffmann this might</p> <p>18 not spark any memories and shouldn't really.</p> <p>19 LORD HOFFMANN: I have seen some of the documents.</p> <p>20 MR WADE: So I am quite happy to leave it there, on the</p> <p>21 basis that we will probably revisit this issue in the</p> <p>22 closing submissions and move on. If you want to revisit</p> <p>23 any of those clauses and discuss them with me with them</p> <p>24 open, I will do so.</p> <p>25 THE CHAIRMAN: That's fine with the Tribunal.</p> <p style="text-align: center;">Page 132</p>

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<p>1 MR WADE: So now turning to NAE's legal defences. NAE has</p> <p>2 raised two legal defences to the claims against it.</p> <p>3 The first is that Allied has agreed to vary by</p> <p>4 conduct -- waive its claims under the PSC or vary them.</p> <p>5 So those are the two defences that they raise on grounds</p> <p>6 of the operation of law. Our response to both of those</p> <p>7 is quite similar. NAE in its submissions hasn't taken</p> <p>8 account of the requirements of those defences, and under</p> <p>9 Nigerian law -- and this is at H1, is the reference, is</p> <p>10 the case H1, 19 -- under Nigerian law to prove waiver</p> <p>11 you must show that the representor intended to effect</p> <p>12 the legal relations between the parties.</p> <p>13 There is no evidence at all, because it wasn't the</p> <p>14 case, that in anything that Allied did they intended to</p> <p>15 change the legal relations between the parties.</p> <p>16 Anything that they did was pursuant to the legal</p> <p>17 framework in which they were operating under the PSC,</p> <p>18 and so any participation in Opcom meetings, any</p> <p>19 compliance with subsidiary agreements, any secondments,</p> <p>20 it was all done within the framework of written</p> <p>21 agreements and concluded agreements, and were not</p> <p>22 intended to vary any of the terms of the PSC at all.</p> <p>23 In any event, and this is another point that NAE</p> <p>24 would have to prove, and I can't show that they relied</p> <p>25 on any representations by NAE, in the sense that we've</p> <p style="text-align: center;">Page 133</p>	<p>1 this, and Nigerian law, unlike English law, prohibits</p> <p>2 revision of contracts by conduct where there is a no</p> <p>3 variation clause which requires variations in writing.</p> <p>4 Turning then to the exclusion of limitation clauses.</p> <p>5 Mr Nesbitt introduced the issue to you, and two of</p> <p>6 you will recall it from the preliminary issues hearing</p> <p>7 as well. Mr Nesbitt took you to some pre-contractual</p> <p>8 exchanges of emails, the point there being really</p> <p>9 whether all of Allied's claims under any contract are</p> <p>10 excluded by the wording of clause 12 of the SPA.</p> <p>11 The first point we make returns to the issue of the</p> <p>12 allocation of liabilities between the parties, and we</p> <p>13 say that you should read clause 12 in that context. We</p> <p>14 have a carefully negotiated agreement in which pre- and</p> <p>15 post-economic date liabilities were divided expressly</p> <p>16 between the parties, and the Tribunal has to think of</p> <p>17 how clause 12, which has exclusions of liabilities,</p> <p>18 operates within that.</p> <p>19 It is against that background that you need to look</p> <p>20 at what is being excluded. The language of clause 12 --</p> <p>21 and tell me if you want to have a look at it is at --</p> <p>22 THE CHAIRMAN: Whichever you prefer.</p> <p>23 MR WADE: You may recall that otherwise we can open up</p> <p>24 clause 12, which is at --</p> <p>25 THE CHAIRMAN: I just happen to have it almost open in front</p> <p style="text-align: center;">Page 135</p>
<p>1 heard earlier today how NAE claims that Allied was fully</p> <p>2 participating in all of the operations and receiving</p> <p>3 information and engaging in management decisions. That</p> <p>4 is a line of argument which we have referred to as the</p> <p>5 jointly agreed fallacy in our submissions. It is</p> <p>6 a fallacy because it is factually unproven. But it is</p> <p>7 also a fallacy in circumstances where NAE's witnesses</p> <p>8 tell you in their statements, for example Mr Carbonara</p> <p>9 at paragraph 63, or Mr Cherri at paragraph 51, they tell</p> <p>10 you that the Allied operatives were not people that they</p> <p>11 trusted. I accept that I am paraphrasing here, but they</p> <p>12 do indicate a degree of lack of respect towards the</p> <p>13 technical abilities of Allied's personnel, and to</p> <p>14 an extent Allied's personnel themselves would accept</p> <p>15 that compared with Eni and NAE's experience, they were</p> <p>16 the weaker party and they did not expect and would not</p> <p>17 have expected NAE or Eni to rely on any of their</p> <p>18 recommendations or proposals. Indeed, they weren't</p> <p>19 relied upon. The same arguments are equally an answer</p> <p>20 to the variation defence which is raised also in its</p> <p>21 pre-hearing submissions.</p> <p>22 In relation to variation, the position is slightly</p> <p>23 stronger from the counter-claimants' position because</p> <p>24 Nigerian law is very clear on the effect of no variation</p> <p>25 clauses, and we have Nigerian authority in the bundle on</p> <p style="text-align: center;">Page 134</p>	<p>1 of me. That is my reason --</p> <p>2 MR WADE: It is at bundle A, tab 1, page 26. Throughout</p> <p>3 clause 12 you will see constant references to "exclusion</p> <p>4 of liability for Claims". It is that provision which</p> <p>5 the respondents and counter-claimants rely on, when they</p> <p>6 say that nothing in clause 12 relates to the claims that</p> <p>7 are being advanced by Allied and CINL and on behalf of</p> <p>8 CPL, because all of clause 12 -- and it doesn't matter</p> <p>9 where you point at, but all of clause 12 relates to</p> <p>10 capital C claims. When you turn at page 5 of the bundle</p> <p>11 or, indeed, 5 of the contract itself to the definition</p> <p>12 of "Claim" you see that:</p> <p>13 "A Claim means a claim means a claim for any breach</p> <p>14 or alleged breach of any of the warranties or any other</p> <p>15 claim for any other breach of this agreement."</p> <p>16 Now, I would ask you to -- of course, you don't have</p> <p>17 to -- but I would ask you to underline the term "this</p> <p>18 agreement" because it is a defined term and because its</p> <p>19 the point that I wish to emphasise to you. It is</p> <p>20 breaches of this agreement in respect of which any</p> <p>21 matter is excluded.</p> <p>22 The definition continues:</p> <p>23 "... in respect of this agreement or in respect of</p> <p>24 any matter arising out of this agreement or any of the</p> <p>25 completion documents."</p> <p style="text-align: center;">Page 136</p>

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<p>1 So you can look it up, but the completion documents</p> <p>2 are the deed of novation and the deed of assignment.</p> <p>3 The completion documents do not include the PSC, of</p> <p>4 course.</p> <p>5 As arbitration lawyers you might be thinking to</p> <p>6 yourselves, well, if it's any matter arising out of,</p> <p>7 then that sounds a lot like Fiona Trust and, therefore,</p> <p>8 it's any matter arising out of or in connection with it</p> <p>9 will include the PSC, and that is indeed the</p> <p>10 jurisdictional ruling paraphrased that you made. But</p> <p>11 this is not an arbitration contract, and this clause,</p> <p>12 together with clause 12, needs to be read within the</p> <p>13 context of the SPA generally, and the context of the SPA</p> <p>14 is that the parties negotiated and agreed an economic</p> <p>15 separation of liabilities up to the economic date and</p> <p>16 from the economic date, and the exclusion of liabilities</p> <p>17 and the references to "Claim" makes sense in that</p> <p>18 context.</p> <p>19 You will notice also, although perhaps it's not the</p> <p>20 strongest of my points, that there is no express</p> <p>21 reference to -- although there are claims for breach of</p> <p>22 warranty, there is no express reference to claims for</p> <p>23 breach of an indemnity. Of course, the indemnity is</p> <p>24 an entirely different animal to the warranties. It is</p> <p>25 expressly stated in the indemnities that Allied may</p> <p style="text-align: center;">Page 137</p>	<p>1 therefore, you don't have jurisdiction under the PSC.</p> <p>2 Having accepted our position and the correct</p> <p>3 interpretation of the SPA in that regard, it is</p> <p>4 impermissible, in our submission, for NAE to change tack</p> <p>5 and say to you now the "Claims" has no meanings.</p> <p>6 The final point, and I make this with the</p> <p>7 reservation that about -- a caveat about the importance</p> <p>8 of pre-contractual exchanges which in fairness would be</p> <p>9 said against me have been relied upon by both parties in</p> <p>10 this arbitration for context. But as far as they are</p> <p>11 dispositive, it is probably fair to say that when</p> <p>12 Mr Malek made concessions in emails accepting deletions</p> <p>13 of parts of clause 12, you don't know and you can't know</p> <p>14 whether he did so because he was alive to the definition</p> <p>15 of "Claims". And, in our submission, he must have been,</p> <p>16 having drafted the contract. So when he gave up the</p> <p>17 wording you were referred to before in clause 12, he did</p> <p>18 so in the full knowledge that it made no difference</p> <p>19 whatsoever. It made no difference because the</p> <p>20 definition of "Claims" protected the rights he wanted</p> <p>21 protected in any event.</p> <p>22 So to the extent that pre-contractual correspondence</p> <p>23 and exchanges have great weight or not, in this case</p> <p>24 they have done in relation to these. Of course, in</p> <p>25 relation to the pre-contractual exchanges that we rely</p> <p style="text-align: center;">Page 139</p>
<p>1 recover damages or the losses of affiliates. That</p> <p>2 wouldn't be the same for any other type of claim under</p> <p>3 the SPA.</p> <p>4 Now, there are two more points that I would like to</p> <p>5 make orally about -- well, there will probably be more</p> <p>6 than two, but two that immediately come to mind that</p> <p>7 I would like to make orally about our submissions in</p> <p>8 this regard. I suppose the first preliminary point 0,</p> <p>9 then, is that these are submissions which you accepted.</p> <p>10 So, again, our starting point is already from a position</p> <p>11 where you have understood our submissions in relation to</p> <p>12 clause 12 and you've made a ruling as to the operation</p> <p>13 of clause 11.1 and 11.2, but 11.1 in particular.</p> <p>14 The second is, of course, we were deeply concerned</p> <p>15 as to the correctness of our submissions to you until</p> <p>16 the jurisdictional hearing in which your first award was</p> <p>17 challenged. Our concern was alleviated at that point</p> <p>18 because counsel for NAE made the very same submission</p> <p>19 against us in that case. The reference for that is at</p> <p>20 G26, tab 676, page 28, and lines 7 to 11. The argument</p> <p>21 he was putting there was that, even though you have</p> <p>22 jurisdiction under clause 11.1 to address claims under</p> <p>23 the indemnity in clause 11.1, you can't have parallel</p> <p>24 jurisdiction for claims under the PSC because of claims</p> <p>25 being "Claims" aren't claims under the PSC and,</p> <p style="text-align: center;">Page 138</p>	<p>1 on, the position is entirely different and we will get</p> <p>2 to --</p> <p>3 THE CHAIRMAN: We've understood the parties' flexibility</p> <p>4 about relying on pre-contractual exchanges.</p> <p>5 MR WADE: Okay. So that was my final point on the issue of</p> <p>6 the clause 12 exclusions.</p> <p>7 No, that wasn't the final point. My slides correct</p> <p>8 me. The final point is that you should test -- whenever</p> <p>9 you think carefully about the clause 12 exclusions you</p> <p>10 should test the exclusion in relation to the terms of</p> <p>11 indemnity 11.7, which is the gas flaring indemnity. The</p> <p>12 background to the gas flaring indemnity is that it was</p> <p>13 entered in circumstances where the parties had already</p> <p>14 been told they were going to be fined for gas flaring</p> <p>15 and Allied had been complaining about the gas flaring</p> <p>16 for a great deal of time and NAE had done nothing to</p> <p>17 correct it. In these circumstances, the indemnity at</p> <p>18 clause 11.7 was entered into and NAE accepted liability</p> <p>19 for all of the gas flaring, for any fines arising from</p> <p>20 the gas flaring, up until the economic date.</p> <p>21 The parties negotiated that from the economic date</p> <p>22 Allied would be responsible for any gas flaring and any</p> <p>23 fines that arise in relation to that. If NAE's current</p> <p>24 view of clause 12 is correct, then this indemnity has no</p> <p>25 meaning whatsoever. That applies also by the way in</p> <p style="text-align: center;">Page 140</p>

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<p>1 relation to thinking about the novation. The parties 2 took the trouble to negotiate a set of indemnities, 3 including an indemnity for events of which they were 4 well aware, and then by some magical operation of 5 clause 12 those provisions are emptied of any content. 6 If that is the case, if clause 12 applies to disapply 7 the first half of clause 11.7, why did the parties enter 8 into it at all? Did they intend clause 11.7 to be 9 disappplied? Was this a gotcha moment on behalf of Eni 10 or NAE? Did NAE think to itself "Well, excellent"? 11 I don't think so, I think parties must be taken to have 12 negotiated in reasonable good faith and they would not 13 have intended to agree one provision and then close it 14 out by the back door. 15 So that's probably my last submission on the 16 exclusion clauses. 17 Turning then to NAE's claim against Allied -- how 18 are we doing for time? 19 Do I have another 15 minutes or so? 20 THE CHAIRMAN: Yes. 21 MR WADE: Yes. (Pause). 22 So, first of all, again I must make my submissions 23 here without prejudice to all of the various 24 jurisdictional and other objections which we have 25 pending.</p> <p style="text-align: center;">Page 141</p>	<p>1 like -- and I say this with almost certainty -- that NAE 2 was aware that Allied had served the dispute notice on 3 time, and they weren't aware of it from the very first 4 moment but they became aware of it and they concluded 5 that it was served on time. 6 MR LEW: You just said that this has come about from 7 disclosure. 8 MR WADE: It has come about -- 9 MR LEW: Can you take us to those documents. 10 MR WADE: Yes, I will. So let's go there, please. The 11 first document I would like to take you to is -- 12 THE CHAIRMAN: Before you take us to their documents that 13 you received on disclosure, am I correct that your case 14 is that Allied sent the notice to Abuja? 15 MR WADE: Correct. 16 THE CHAIRMAN: And that somebody at NAE in Abuja sent to it 17 somebody else in Port Harcourt? 18 MR WADE: Correct. 19 THE CHAIRMAN: And that the stamp is, therefore, the Port 20 Harcourt stamp but it is not the Abuja stamp? 21 MR WADE: And that is now no longer disputed. NAE now 22 accepts that that is the Port Harcourt stamp. 23 THE CHAIRMAN: But you actually have no record of how it was 24 sent by Allied to Abuja? 25 MR WADE: Well, we have. The only evidence you have and the</p> <p style="text-align: center;">Page 143</p>
<p>1 I would like also to point out, of course, that we 2 have dealt with the adjustments claim that is being 3 levelled by NAE against Allied at great length, for 4 example in our rejoinder and reply submissions at B1, 5 480 to 485. There are numerous references here, but the 6 short point here is that we maintain the arguments that 7 we have made in the past. So these submissions don't 8 replace them. 9 One of the key issues, though, which has arisen and 10 has been addressed today as well is the issue of the 11 dispute notice and its timeliness. 12 It has been put against us from the very beginning 13 of this arbitration, although in fairness not before 14 then, that the dispute notice was served late. It was 15 served on 15 August, instead of on 9 August. There is 16 a stamp to show it. Our clients, the respondents, have 17 been puzzled about this, knowing full well, as 18 Mr Kamoru Lawal's witness statement evidences, that they 19 had disputed the dispute notice on the 8th or the 9th at 20 the latest. They were very confused by this, and we 21 have been through a lengthy process of making enquiries 22 and asking for disclosure and eventually obtaining 23 disclosure, which shows that our clients were right. 24 Not only are the respondents correct that they 25 submitted the dispute notice on time, but it looks</p> <p style="text-align: center;">Page 142</p>	<p>1 only evidence in this arbitration, which is uncontested 2 as of yet, is that Mr Kamoru Lawal emailed it from 3 Houston to the Abuja office from where it was delivered, 4 probably by hand, possibly by courier, although the lack 5 of evidence of a courier would suggest that it was 6 delivered by hand, and this was common practice in 7 Allied, to -- 8 THE CHAIRMAN: Do we have a copy of that email? 9 MR WADE: We do. We do not. We have searched. You ordered 10 us to search and we did search. And we don't. 11 Nor do we have a copy of a later email in which it 12 was sent somewhere else. It is a lacuna in our case, 13 but we have witness evidence from the person who sent it 14 as to how it was sent, and that will no doubt be tested. 15 THE CHAIRMAN: I had forgotten about that, but could you 16 remind me, did the signatory of the letter indicate that 17 he was in Houston on that day -- 18 MR WADE: I believe so. 19 THE CHAIRMAN: -- in his witness statement? 20 MR WADE: I believe he was in Houston. It was emailed 21 from -- 22 THE CHAIRMAN: I don't recall that. 23 MR WADE: It was emailed. I have met him in Houston so 24 I assumed he was there. He was travelling. 25 MR LEW: He emailed it from Houston?</p> <p style="text-align: center;">Page 144</p>

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<p>1 MR WADE: I understand that it was emailed to Abuja. 2 I should clarify -- 3 MR LEW: Okay. So there ought to be a place from which it 4 was emailed and a place at which it was received. 5 MR WADE: Correct. 6 MR LEW: And that hasn't -- 7 MR WADE: It has not surfaced notwithstanding our best 8 efforts, and we -- 9 MR LEW: Assume that occurred, somebody printed out the 10 letter. 11 MR WADE: Somebody in Abuja printed out the letter, yes. 12 MR LEW: And delivered it. 13 MR WADE: Correct, by hand and we have not been to 14 identify -- 15 MR LEW: You are presuming by hand. 16 MR WADE: We are presuming by hand because there is no 17 courier document. 18 MR LEW: So is there somebody who can actually say 19 "I printed it out and I took it"? 20 MR WADE: No, there is not. Not for lack of asking. There 21 is nobody who can recall it. 22 LORD HOFFMANN: You started off by saying that there were 23 documents disclosed which made your point, and I don't 24 think we've seen them yet. 25 MR WADE: No, we haven't seen them yet we're getting there.</p> <p style="text-align: center;">Page 145</p>	<p>1 like to take you, please, to an earlier tab in that 2 document, which is the tab before. 3 LORD HOFFMANN: 579. 4 MR WADE: This is an email in response from Mr Caropreso. 5 Internally he was asked whether he has received any 6 dispute notice. 7 Initially he answers no in this email, "I haven't 8 received anything but I sent this letter." 9 MR LEW: Which document are you looking at? 10 MR WADE: Sorry. (Pause). 11 Sorry, I have -- 12 THE CHAIRMAN: I accept the blame because I interrupted you. 13 MR WADE: Yes, and I apologise for that blowing me off 14 course. Now, may I ask you please to turn to tab 578 in 15 the same bundle. 16 MR LEW: What was the document you had us at before? 17 THE CHAIRMAN: We're now going to start at 578. 18 MR WADE: If we can start at 578 and there is an email in 19 English at the bottom of the page. 20 At the bottom of the page Mr Giannini asks 21 Mr Caropreso whether, having delivered the final 22 adjustment statement on 24 July, and that's in the 23 first, did Allied ever respond with a dispute notice, 24 and that's final paragraph, in accordance with 25 clause 5.5 of the SPA?</p> <p style="text-align: center;">Page 147</p>
<p>1 We're recalling the background -- 2 THE CHAIRMAN: We're getting there. 3 MR WADE: -- I think is what the chairman was trying to do. 4 Is that correct, sir? 5 THE CHAIRMAN: Absolutely. Why don't we go to the 6 disclosure documents? (Pause). 7 MR WADE: So the first document I would like to take you to 8 is in bundle G21. 9 LORD HOFFMANN: Yes. 10 MR WADE: At tab 580, 338. The tab is 580. 11 LORD HOFFMANN: 580? 12 MR WADE: Yes. 13 No, it's not. 14 LORD HOFFMANN: It's in Italian. 15 MR WADE: It looks like I have the wrong reference, anyway. 16 (Pause). 17 It is at page 388. Sorry, it is page 338 of the 18 tab, the same tab. 19 LORD HOFFMANN: Of 580? 20 MR WADE: Yes, of tab 580, yes. 21 LORD HOFFMANN: I only have six pages on 580. 22 THE CHAIRMAN: Page 2 of the PDF. 23 LORD HOFFMANN: Oh, at the bottom. Yes. 24 MR WADE: But if I may, actually by way of additional 25 background, as our background was interrupted, I would</p> <p style="text-align: center;">Page 146</p>	<p>1 Mr Caropreso replies at the bottom of that page by 2 saying: 3 "I confirm that we have not received any dispute 4 notice in relation to the final adjustment..." 5 He is writing on 27 August: 6 "... and I attach the letter which I sent on 7 23 August." 8 He also says: 9 "The bank has confirmed we haven't received any 10 payment from Allied." 11 Now, the letter, if you just turn one page over, 12 still in tab 578, at page 333, the Tribunal may 13 recognise this letter, it is the letter which you relied 14 on in your second award as the basis for deciding that 15 NAE was in good faith when it made its claim under the 16 adjustment guarantee. 17 Then if you could, please, turn now to tab 579, you 18 see Mr Caropreso sending an email to the same group of 19 people saying: 20 "Dear all, I send you the letter sent by Allied on 21 the subject." 22 Then on the next page is the dispute notice, and 23 Mr Caropreso explains in his witness statement at 24 paragraph 37 -- I don't think we need to go there -- 25 that although this dispute notice was sitting on his</p> <p style="text-align: center;">Page 148</p>

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<p>1 desk for at least almost two weeks, he hadn't noticed</p> <p>2 it. That is why he sent on the 23rd the letter to</p> <p>3 Allied, and that is why also on the 27th he sent the</p> <p>4 internal email saying "We haven't received anything".</p> <p>5 But then he reached the bottom of his pile of papers</p> <p>6 on his desk, or something else occurred, and he</p> <p>7 discovered that the dispute notice had been sent. We</p> <p>8 don't know how he discovered it, but it is now</p> <p>9 acknowledged that it was discovered.</p> <p>10 We also understand that the 15 August stamp was</p> <p>11 applied by Mr Caropreso's secretary, after it was</p> <p>12 received in his office. So it was not applied in Abuja</p> <p>13 at all but it was applied in Port Harcourt. We don't</p> <p>14 know how it arrived in Port Harcourt but that is where</p> <p>15 the stamp was received.</p> <p>16 Then if we go to tab 580 latterly at last, and that</p> <p>17 is an internal Eni/NAE email -- in fact it's an internal</p> <p>18 NAE email, in terms of the people who are on it, as far</p> <p>19 as I understand, and we turn to the English translation</p> <p>20 on page 388, and Mr Giannini is updating Mr Pagano on</p> <p>21 the developments with regard to the dispute notice.</p> <p>22 He says in the first paragraphs:</p> <p>23 "We have received this. We need to investigate</p> <p>24 what's happening."</p> <p>25 Sorry:</p> <p style="text-align: center;">Page 149</p>	<p>1 Mr Giannini says:</p> <p>2 "With regard to the letter received from Allied</p> <p>3 relative to the final adjustments for the Jan/June 2012</p> <p>4 costs we are preparing a draft report reply in which we</p> <p>5 state that we are willing to hold a meeting in order to</p> <p>6 establish the definitive amount."</p> <p>7 And so if you go back to his previous email, you</p> <p>8 know that he was going to do that if the investigation</p> <p>9 revealed that the dispute notice was served in time. So</p> <p>10 on 29 August Mr Giannini says "Well, if it was turned in</p> <p>11 time we are going to open a dialogue and we are going to</p> <p>12 agree or try and agree" -- well, I imply that from the</p> <p>13 words "open a dialogue".</p> <p>14 But on 4 September you see that that is what they</p> <p>15 are doing. They haven't gone for the other option.</p> <p>16 They haven't demanded money. They haven't decided to</p> <p>17 demand money. They've decided to open a dialogue.</p> <p>18 MR LEW: The notice of dispute, what did that ask for?</p> <p>19 MR WADE: Sorry?</p> <p>20 MR LEW: What did the notice of dispute ask for?</p> <p>21 MR WADE: The notice of dispute did two things, and I am</p> <p>22 looking at it conveniently. It is at tab 579 on</p> <p>23 page 335, but it did two things. It identified</p> <p>24 a particular item which should not have been claimed as</p> <p>25 an adjustment, and it said: as a result, your notice</p> <p style="text-align: center;">Page 151</p>
<p>1 "We have received this."</p> <p>2 And he gives the background in the first paragraphs,</p> <p>3 and it is the final two paragraphs from which I draw my</p> <p>4 conclusions in a minute.</p> <p>5 He says:</p> <p>6 "We are verifying with legal if the response from</p> <p>7 Allied was sent and delivered in the time defined by the</p> <p>8 SPA."</p> <p>9 He says:</p> <p>10 "If so or in which case [after the brackets] we will</p> <p>11 open a dialogue with Allied. If it is not [he continues</p> <p>12 in the next paragraph] otherwise it our intention to</p> <p>13 apply the SPA requiring the payment of the first</p> <p>14 tranche."</p> <p>15 So an internal investigation is launched by NAE/Eni.</p> <p>16 There is a bit of a gap in the documents and</p> <p>17 I understand that they were identified to us in the</p> <p>18 disclosure process, but they are privileged so we don't</p> <p>19 have them, and that is not something we complain about.</p> <p>20 But if you go to the next tab, at tab 581, we see</p> <p>21 another update from Mr Giannini to Mr Caropreso and</p> <p>22 others, including Mr Pagano, and the subject is "Dispute</p> <p>23 period with respect to the final adjustment statement</p> <p>24 under the SPA". You have the conclusion of the</p> <p>25 investigation.</p> <p style="text-align: center;">Page 150</p>	<p>1 can't be final. So your final adjustment notice can't</p> <p>2 be final because it has an incorrect entry in it. It</p> <p>3 says: in any event we can't address this within the</p> <p>4 time, we don't know if it is right or wrong, and our</p> <p>5 interpretation of that letter is that we, therefore,</p> <p>6 challenge it because we need more time to evaluate the</p> <p>7 claims that you are making.</p> <p>8 So it concludes with a request for a meeting. But</p> <p>9 you will recall, and this is important, in my</p> <p>10 submission, that once they had discovered the dispute</p> <p>11 notice NAE only intended to comply with that request for</p> <p>12 a meeting if the dispute notice was received in time,</p> <p>13 according to their investigation, and then they did.</p> <p>14 So --</p> <p>15 LORD HOFFMANN: Anyway, that's the evidence that shows you</p> <p>16 were right?</p> <p>17 MR WADE: Yes, that is the evidence that shows we were</p> <p>18 right. It raises questions which are, I suppose, not</p> <p>19 for me to answer but it does raise questions about the</p> <p>20 basis of the finding previously made about the good</p> <p>21 faith nature of the claim made under the adjustments</p> <p>22 guarantee. Whether that would have had any difference,</p> <p>23 I don't know if it would, in terms of your award, but it</p> <p>24 is nevertheless an important question to think about as</p> <p>25 you consider the evidence that you hear in this hearing.</p> <p style="text-align: center;">Page 152</p>

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<p>1 (Pause).</p> <p>2 I want to leave that issue for now. We'll revisit</p> <p>3 it, I believe, in the course of the hearing. If you</p> <p>4 have any more questions about that, then I will happily</p> <p>5 address them. Or I will try to, when I say "happily".</p> <p>6 On the slides I go through these very same emails</p> <p>7 that we've just seen. It is probably better to see them</p> <p>8 in the flesh.</p> <p>9 The slide there is the email covering the actual</p> <p>10 letter which the Tribunal might recall on</p> <p>11 11 September --</p> <p>12 THE CHAIRMAN: That's the next letter in the series.</p> <p>13 MR WADE: The next letter is when NAE does actually invite</p> <p>14 Allied to hold a hearing on the 19th, and there are</p> <p>15 expressions of willingness to meet and resolve the</p> <p>16 issue. We rely on that -- initially we relied on that</p> <p>17 for waiver and now we rely on it as proof that the</p> <p>18 dispute notice was received on time according to NAE's</p> <p>19 own investigation and, alternatively, if that is not</p> <p>20 proven, then it is certainly evidence of waiver, and the</p> <p>21 documents we've seen go to both issues as well.</p> <p>22 The other aspect which I would briefly address in</p> <p>23 relation to the adjustments, the Tribunal is aware that</p> <p>24 the respondents' case is that matters which shouldn't</p> <p>25 have been claimed were claimed within the adjustments</p> <p style="text-align: center;">Page 153</p>	<p>1 Mr Taylor concludes in relation to -- and this is</p> <p>2 how he conducted the investigation -- that for costs to</p> <p>3 be recoverable as adjustments they had to be permitted</p> <p>4 costs, and he considers that he is -- as a chartered</p> <p>5 accountant whom might have been appointed to conduct the</p> <p>6 independent expert analysis or at least a person of</p> <p>7 similar qualifications, he has reviewed the contract and</p> <p>8 he considers that there are categories of items, claims</p> <p>9 which are permitted, and to fall within a claim that is</p> <p>10 allowed the claims must be permitted under the contract.</p> <p>11 The costs must have been incurred between the date of</p> <p>12 the SPA and completion, so 31 December to 28 June. They</p> <p>13 must be supported by adequate third party documentation.</p> <p>14 So he agrees that the claim must be proven. And one of</p> <p>15 the other issues which arises from the adjustments</p> <p>16 process is that NAE had to show proof of payment.</p> <p>17 Now, Mr Good, the expert appointed by NAE, doesn't</p> <p>18 agree with all of those points but he doesn't disagree</p> <p>19 with them either necessarily. His instructions prevent</p> <p>20 him from analysing the contract on the grounds that</p> <p>21 these are legal questions. So he doesn't offer</p> <p>22 a different conclusion, he just doesn't say anything.</p> <p>23 So you have evidence as to how this clause should</p> <p>24 operate from an expert accountant and you have another</p> <p>25 expert accountant who agrees with many of the</p> <p style="text-align: center;">Page 155</p>
<p>1 and our clients' alternative case in relation to this</p> <p>2 claim is that if we are entirely wrong or misapplied the</p> <p>3 law, and the dispute notice was received late and not</p> <p>4 waived, and the timeliness wasn't waived, and you do</p> <p>5 have jurisdiction to determine the issue, then it would</p> <p>6 be wrong for you -- it would be unconscionable and</p> <p>7 contrary to the parties' intentions for you to simply</p> <p>8 rubber stamp a dispute notice -- sorry, a final</p> <p>9 adjustment statement which is known to be wrong.</p> <p>10 So our case has always been put that if you do get</p> <p>11 to considering the adjustments claim on its substance --</p> <p>12 so this is our alternative case -- then you mustn't just</p> <p>13 rubber stamp the final adjustment statement, you must</p> <p>14 look at whether the claims were validly made. We</p> <p>15 invited the claimant to prove its claim. In the end,</p> <p>16 they tried to do that but, of course, they can't prove</p> <p>17 the entire final adjustment statement, nor their claim.</p> <p>18 In this regard, we have adduced expert evidence from</p> <p>19 Mr Taylor in relation to which of the items claimed</p> <p>20 under the final adjustments statement were properly</p> <p>21 claimed.</p> <p>22 This is an area on which I should say the experts</p> <p>23 agree less on, although they don't completely disagree.</p> <p>24 They agree on many issues, but the questions they don't</p> <p>25 agree upon I will highlight in a minute.</p> <p style="text-align: center;">Page 154</p>	<p>1 mathematical calculations but not the basis under which</p> <p>2 they are applied.</p> <p>3 There are two final points which can be made about</p> <p>4 Mr Taylor's analysis. The first one on the slide is</p> <p>5 I think a relevant and important one, although it's not</p> <p>6 the final answer. The first point is that on the date</p> <p>7 of the final adjustment statement, the FAS, only</p> <p>8 6.8 million of the 48 claimed was properly supported and</p> <p>9 within the dates permitted. So at the date of the FAS,</p> <p>10 of the 48 million only 6.8 million was supported by the</p> <p>11 documents produced. That's relevant to your</p> <p>12 consideration of Allied's response to this final</p> <p>13 adjustment statement. Were they completely bonkers when</p> <p>14 they wrote back and said "We need more time, this</p> <p>15 doesn't make sense"? Or was their response a reasonable</p> <p>16 one in the circumstances?</p> <p>17 The next point which isn't on this slide is that,</p> <p>18 finally, following disclosure of additional documents by</p> <p>19 Mr Good in relation to the final adjustments statement</p> <p>20 claims, Mr Taylor concludes now that if you have</p> <p>21 jurisdiction to look at this at all, then the correct</p> <p>22 amount that was properly claimed is 28.1 million. But</p> <p>23 he is only able to reach that conclusion on the basis of</p> <p>24 evidence provided after the close of submissions by</p> <p>25 NAE's expert witness.</p> <p style="text-align: center;">Page 156</p>

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<p>1 That brings me to the end of my pre-hearing</p> <p>2 submissions, subject to any questions or comments that</p> <p>3 you have.</p> <p>4 THE CHAIRMAN: Thank you very much. That's very helpful</p> <p>5 from both sides.</p> <p>6 Now, it is 4.25 pm. We have on the schedule one</p> <p>7 witness. Shall we start with that witness?</p> <p>8 MR NESBITT: Do I have an opportunity to reply to Mr Wade?</p> <p>9 THE CHAIRMAN: No. Was that provided for in --</p> <p>10 MR NESBITT: It wasn't expressly provided for, but I think</p> <p>11 the agreement was -- or the direction was that each</p> <p>12 party would have two hours each for opening. I think</p> <p>13 I've got a little bit of time left. I haven't</p> <p>14 calculated it.</p> <p>15 Yes, and I think Mr Wade said that he thought that</p> <p>16 we might be longer in reply than in opening, as</p> <p>17 I recall, but I don't think it should come as a surprise</p> <p>18 but I am obviously in the Tribunal's hands. (Pause).</p> <p>19 THE CHAIRMAN: No. You will have a chance in due course to</p> <p>20 reply, but it may be in writing, so there will be no</p> <p>21 further submissions at this point.</p> <p>22 Shall we have a 15-minute break and then we can</p> <p>23 start with our first witness?</p> <p>24 MR NESBITT: That will be Mr Cerrito.</p> <p>25 THE CHAIRMAN: Very well.</p> <p style="text-align: center;">Page 157</p>	<p>1 arbitration?</p> <p>2 A. Yes, it is.</p> <p>3 Q. And if you turn to the end of the document, page 59 in</p> <p>4 the bundle, is that your signature at the end of the</p> <p>5 document?</p> <p>6 A. Yes, it is.</p> <p>7 Q. Is there anything that you wish to amend or add to your</p> <p>8 witness statement?</p> <p>9 A. No.</p> <p>10 MR NESBITT: Thank you, Mr Cerrito. If you wait there the</p> <p>11 respondents' counsel will have some questions for you.</p> <p>12 Cross-examination by MR WADE</p> <p>13 MR WADE: Good afternoon, Mr Cerrito. You have your</p> <p>14 statement there and have you opened it to the right tab?</p> <p>15 A. Yes.</p> <p>16 Q. I understand from your statement that between</p> <p>17 August 2009 and April 2012 you were the finance and</p> <p>18 control manager for NAE; is that correct?</p> <p>19 A. That's correct.</p> <p>20 Q. And you were responsible in relation to the PSC that's</p> <p>21 relevant to this case and the OMLs for preparing</p> <p>22 financial statements, cost recovery and cash flow --</p> <p>23 internal control and cash flow and relations with</p> <p>24 partners.</p> <p>25 A. Yes.</p> <p style="text-align: center;">Page 159</p>
<p>1 (4.24 pm)</p> <p>2 (A short break)</p> <p>3 (4.38 pm)</p> <p>4 MR GIUSEPPE CERRITO (called)</p> <p>5 THE CHAIRMAN: Good afternoon. Could you state your name</p> <p>6 for the record, please.</p> <p>7 A. Yes, I am Giuseppe Cerrito.</p> <p>8 THE CHAIRMAN: Very good. And you've provided a witness</p> <p>9 statement in these proceedings.</p> <p>10 A. Correct, yes.</p> <p>11 THE CHAIRMAN: And you understand that it is your obligation</p> <p>12 to tell the truth?</p> <p>13 A. Yes, I understand.</p> <p>14 THE CHAIRMAN: And that the failure to intentionally to tell</p> <p>15 the truth could have serious consequences for you?</p> <p>16 A. Yes, I know.</p> <p>17 THE CHAIRMAN: Very good. Claimant, would you like to</p> <p>18 introduce the witness.</p> <p>19 Examination-in-chief by MR NESBITT</p> <p>20 MR NESBITT: Thank you, Mr Chairman.</p> <p>21 Good afternoon, Mr Cerrito. Could Mr Cerrito be</p> <p>22 given bundle D1, please.</p> <p>23 Mr Cerrito, if you could turn to tab 5 in that</p> <p>24 bundle, please. The document there, is that a copy of</p> <p>25 the witness statement that you've given in this</p> <p style="text-align: center;">Page 158</p>	<p>1 Q. Correct?</p> <p>2 A. Correct.</p> <p>3 Q. You were also part of the management committee or Macom</p> <p>4 as we refer to it; is that correct?</p> <p>5 A. Correct, yes.</p> <p>6 Q. And after April 2012 you became the general manager</p> <p>7 corporate and finance control for NAOC.</p> <p>8 A. Yes.</p> <p>9 Q. And I understand that NAOC is Eni's onshore producing</p> <p>10 company in Nigeria; is that correct?</p> <p>11 A. That's correct.</p> <p>12 Q. And at the same time you remained a director of NAE --</p> <p>13 A. Yes, I became a director of NAE.</p> <p>14 Q. -- in April 2012.</p> <p>15 A. Correct.</p> <p>16 Q. Okay. You say in your statement at paragraph 13, I'm</p> <p>17 not sure if you want to look at it, but please do if you</p> <p>18 want to, that you attended Macom meeting number 9 in</p> <p>19 September 2009?</p> <p>20 A. That's correct.</p> <p>21 Q. And that is the Macom meeting in which the GSO was</p> <p>22 approved; is that correct?</p> <p>23 A. Yes, that's correct.</p> <p>24 Q. And at that point you were also aware of the side letter</p> <p>25 to the Macom -- to the GSO; is that correct?</p> <p style="text-align: center;">Page 160</p>

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<p>1 A. Yes.</p> <p>2 Q. Okay. Can I ask you, please, to look at that side</p> <p>3 letter. It's in folder G12 at tab 291. It starts at</p> <p>4 page 18. You can see at the top there is a heading</p> <p>5 "Side letter to the PSC on OML 120 and 121 regarding</p> <p>6 Oyo-5 well intervention". Can you see that?</p> <p>7 A. Yes.</p> <p>8 Q. Can you please turn to the final page of that document,</p> <p>9 which is at 21. You see that there is a signature block</p> <p>10 there which is signed and dated on 1 October -- well,</p> <p>11 between 1 and 4 October 2012 -- 2010, I'm sorry. 2010.</p> <p>12 A. Yes.</p> <p>13 Q. And just briefly, is the signature on the top right</p> <p>14 left-hand side, so the top left-hand side under NAE, is</p> <p>15 that the signature of Mr Pagano?</p> <p>16 A. Yes, that's correct.</p> <p>17 Q. And was Mr Pagano -- at that time, was he the directing</p> <p>18 manager or the general manager of --</p> <p>19 A. Managing director and vice-president of the company.</p> <p>20 Q. Of NAE? Okay.</p> <p>21 Can you please turn to the second page of this</p> <p>22 document at paragraph 2. In that paragraph you see that</p> <p>23 Allied agreed to pay for the Oyo GSO -- if you don't</p> <p>24 mind I will just call it the GSO.</p> <p>25 A. Yes.</p> <p style="text-align: center;">Page 161</p>	<p>1 Q. And so you pre-empted my next question, thank you very</p> <p>2 much. My next question which you have just answered, is</p> <p>3 it correct that the AFE was approved at the amount you</p> <p>4 have just stated? I think it is 50.963 --</p> <p>5 A. I think so.</p> <p>6 Q. -- and that's referred to in paragraph 26 of your</p> <p>7 statement, isn't it?</p> <p>8 A. Yes.</p> <p>9 Q. And is it correct that there is no further AFE? There</p> <p>10 was no additional AFE after that?</p> <p>11 A. Yes --</p> <p>12 Q. That was --</p> <p>13 A. -- this is correct.</p> <p>14 Q. -- the final one?</p> <p>15 A. There was no possibility to have a new AFE.</p> <p>16 Q. Okay. So now can I please ask you to turn to bundle --</p> <p>17 it's a new bundle to me, E3, at tab 4. (Pause).</p> <p>18 That is the joint statement between Mr Nicholas Good</p> <p>19 and Mr Mark Taylor, both of whom are the quantum experts</p> <p>20 in this arbitration.</p> <p>21 Do you see that?</p> <p>22 A. Yes.</p> <p>23 Q. You do. Can I ask you, please ... (Pause).</p> <p>24 Could I ask you, please, to turn to page 101 in that</p> <p>25 tab. 101. Turn to paragraph 5.2.</p> <p style="text-align: center;">Page 163</p>
<p>1 Q. That's correct, Allied agrees to pay?</p> <p>2 Can you please also look at paragraph 4, and can</p> <p>3 you -- I won't ask you to read it to the Tribunal unless</p> <p>4 the Tribunal wants it read. I find that generally --</p> <p>5 THE CHAIRMAN: No.</p> <p>6 MR WADE: But you see there that -- is it correct that if</p> <p>7 there was an expenditure in excess of 10 per cent of the</p> <p>8 AFE, then any expenditure in excess of that had to be</p> <p>9 approved by Macom? Is that correct?</p> <p>10 A. Yes, in excess of 10 per cent of the approved</p> <p>11 authorisation of our expenditure.</p> <p>12 Q. And if it was not approved by Macom, then Allied would</p> <p>13 not have to pay the excess, would it?</p> <p>14 A. Well, it is not written in this way because it is</p> <p>15 written:</p> <p>16 "The costs overrun shall be presented to Macom for</p> <p>17 approval and if approved the financing of such costs of</p> <p>18 overrun shall be the sole responsibility of Allied in</p> <p>19 accordance with the payment obligation."</p> <p>20 If it was not approved, well, it is not written</p> <p>21 which are the consequences.</p> <p>22 Q. I understand. Thank you. We've read the provision</p> <p>23 and --</p> <p>24 A. However, just for clarification, the AFE was approved</p> <p>25 for \$50.9 million.</p> <p style="text-align: center;">Page 162</p>	<p>1 A. 5.2?</p> <p>2 Q. Yes.</p> <p>3 A. Yes.</p> <p>4 Q. And the entry there is "Oyo-5 GSO costs".</p> <p>5 Can you see in the third column or the column to the</p> <p>6 right --</p> <p>7 A. Yes.</p> <p>8 Q. -- can you see it says:</p> <p>9 "The experts agree that the B1 documentation</p> <p>10 referred to by Mr Taylor ..."</p> <p>11 We'll go there in a second:</p> <p>12 "... records an expenditure by Allied ..."</p> <p>13 It doesn't say that, let me read you what it says:</p> <p>14 "The experts agree that the B1 documentation</p> <p>15 referenced by Mr Taylor and Allied's schedule detail of</p> <p>16 GSO costs exhibit MPJT18 records expenditure of</p> <p>17 44.5 million between April 2011 and March 2013 and notes</p> <p>18 that the partial invoice supported received [and there</p> <p>19 is a reference there] ties to amounts included in</p> <p>20 Allied's schedule of GSO costs."</p> <p>21 Do you see that?</p> <p>22 A. Yes, I saw that.</p> <p>23 Q. Good. In the paragraph below that, there is a reference</p> <p>24 to a different document:</p> <p>25 "The experts also note that the schedule of Oyo-5</p> <p style="text-align: center;">Page 164</p>

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<p>1 GSO costs prepared by NAE shows 43.1 million paid by</p> <p>2 Allied and its affiliates which is 1.4 million lower</p> <p>3 (sheet 4 Oyo-5 GSO) workbook exhibited at MPJT24."</p> <p>4 Do you see that?</p> <p>5 Then there is a reference to the fact that the</p> <p>6 difference is probably due to the fact that the NAE</p> <p>7 document was produced earlier.</p> <p>8 A. Well, we draft the --</p> <p>9 Q. I'm just asking --</p> <p>10 A. -- the payment until June 2012.</p> <p>11 Q. Correct. So the reference explains there the difference</p> <p>12 between the two schedules; correct? That one produced</p> <p>13 earlier than the other?</p> <p>14 A. Correct.</p> <p>15 Q. So you agree that Allied paid -- of the GSO costs Allied</p> <p>16 paid \$44.5 million towards the GSO costs? Do you agree</p> <p>17 that?</p> <p>18 A. Well, I have -- I had evidence for 43 million. The</p> <p>19 additional 1.4 I believed the experts was able to get</p> <p>20 the evidence. We received the evidence until June 2012</p> <p>21 for \$43 million.</p> <p>22 Q. That's what --</p> <p>23 A. Which Allied paid and recovered.</p> <p>24 Q. -- what you agree. And you do not agree the figure of</p> <p>25 44.5 of which you're not aware?</p> <p style="text-align: center;">Page 165</p>	<p>1 A. Yes, 59,697,438.2 (sic).</p> <p>2 Q. Do you understand that to be the total cost of the GSO?</p> <p>3 A. Well, I do not have this evidence because in the last</p> <p>4 exchange we made between us and Allied we arrived at 56</p> <p>5 point something. In the range of 56 million.</p> <p>6 Q. Okay --</p> <p>7 A. Then in all that there were invoices not approved by</p> <p>8 Allied. There were negotiation ongoing with some</p> <p>9 contractors which were -- to which Allied was trying to</p> <p>10 reduce the amount of the invoices, like Schlumberger.</p> <p>11 So I'm not able to say which is the final amount.</p> <p>12 Q. So can I ask you, please, to turn to folder F20 at</p> <p>13 tab 24. That is the other document we looked at before</p> <p>14 in the joint expert report. This is easier to identify</p> <p>15 and it might be easier for you in particular, but if you</p> <p>16 look on the first page, 110, you see that there is the</p> <p>17 final adjustment statement. That is the title there.</p> <p>18 A. Yes.</p> <p>19 Q. And if you go to page 114 --</p> <p>20 A. Yes.</p> <p>21 Q. -- we have there a breakdown of the GSO costs.</p> <p>22 A. Yes.</p> <p>23 Q. Is that correct? If you look at the total amount of US</p> <p>24 dollars, that is an amount you were just mentioning --</p> <p>25 the approximation you were just mentioning, isn't it?</p> <p style="text-align: center;">Page 167</p>
<p>1 A. I -- well, I do not have direct evidence of the</p> <p>2 additional 1.4.</p> <p>3 Q. Yes.</p> <p>4 A. I have the evidence for 43.</p> <p>5 Q. Can I ask you, please, then, to go to folder F20 --</p> <p>6 sorry, F19 is -- that's the one he agrees.</p> <p>7 Can you open, please, F19 at tab 18. This document</p> <p>8 is -- which you can glean from the index prepared by</p> <p>9 claimants' counsel, this document is exhibit MPJT,</p> <p>10 which was referred to in the table you just looked at in</p> <p>11 the joint statement at paragraph 5.2.</p> <p>12 Please don't worry, I'm not going to ask you to</p> <p>13 agree the amounts here.</p> <p>14 LORD HOFFMANN: You did say 19?</p> <p>15 MR WADE: It is F19, tab 18.</p> <p>16 LORD HOFFMANN: Oh, tab 18. Sorry.</p> <p>17 MR WADE: I am going to ask you to turn to the final page of</p> <p>18 that printout of a spreadsheet.</p> <p>19 A. Yes.</p> <p>20 Q. Page 278.</p> <p>21 A. Yes.</p> <p>22 Q. I will ask you, please, to look at column 9, 9 starting</p> <p>23 from the left and going right, under the heading "Final</p> <p>24 invoice amount endorsed". Can you please read out the</p> <p>25 total of the final invoice endorsed there?</p> <p style="text-align: center;">Page 166</p>	<p>1 A. Well, I --</p> <p>2 Q. It's a bit higher than you said, it is 57.</p> <p>3 A. That's correct, 57. I'm not sure that all the costs</p> <p>4 included in these table were supported by final</p> <p>5 invoices, in the sense that at that time there were</p> <p>6 still a discussion and a negotiation with contractors to</p> <p>7 finalise the cost.</p> <p>8 Q. I see.</p> <p>9 A. We were providing a table like these frequently. We</p> <p>10 tried to reconcile both positions.</p> <p>11 Q. I understand. Thank you.</p> <p>12 So here you have also the lower amount, the amount</p> <p>13 paid of 43.08 million, which is the amount paid by</p> <p>14 Allied --</p> <p>15 A. Yes.</p> <p>16 Q. -- and we said it's the lower amount because this is</p> <p>17 an earlier document; correct?</p> <p>18 A. Correct.</p> <p>19 Q. And turning back to the question of the level of the</p> <p>20 FAE, we said that the FAE was approved costs of the GSO</p> <p>21 at \$50,963,912, and that's correct. And if we add</p> <p>22 10 per cent to that, would you agree that the total is</p> <p>23 just over 56 million?</p> <p>24 A. Yes, that's correct. However --</p> <p>25 Q. And --</p> <p style="text-align: center;">Page 168</p>

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<p>1 A. -- this was -- if I can clarify, this was one of the</p> <p>2 points, because just for your understanding, this table,</p> <p>3 since it is including the payment of March 2012, means</p> <p>4 that this is a table prepared more than one year after</p> <p>5 the GSO was sent, and there is a clear -- it was</p> <p>6 reflecting what was happening during that period that</p> <p>7 there were negotiations ongoing with the contractor.</p> <p>8 The invoices were still under discussion. The payments</p> <p>9 were not done. The contractors were claiming for the</p> <p>10 payments. And the value -- final value of the GSO was</p> <p>11 not yet closed.</p> <p>12 This was an estimate prepared in -- I believe in</p> <p>13 June or in -- between May and June 2012 and --</p> <p>14 Q. Mr Cerrito, I'm sorry --</p> <p>15 A. -- it is not the final estimate.</p> <p>16 Q. I'm sorry to interrupt, and I apologise to the Tribunal</p> <p>17 for the interruption. Because of the time I want to</p> <p>18 move on.</p> <p>19 THE CHAIRMAN: Mr Cerrito, I think the point was what was</p> <p>20 the amount that was authorised?</p> <p>21 MR WADE: Right.</p> <p>22 THE CHAIRMAN: And I think --</p> <p>23 MR WADE: I am loath to interrupt you at all but</p> <p>24 I apologise.</p> <p>25 THE CHAIRMAN: So if you could just answer the questions as</p> <p style="text-align: center;">Page 169</p>	<p>1 you were part of the team that negotiated the SPA</p> <p>2 amendment.</p> <p>3 A. Yes.</p> <p>4 Q. Can you please tell us or tell me who else was on the</p> <p>5 team.</p> <p>6 A. Well, the team is usually composed by the lead</p> <p>7 negotiator, the --</p> <p>8 Q. Can I stop you. Can you please tell me the name and</p> <p>9 their role straightaway?</p> <p>10 A. Yes, Mr Vicini was the lead negotiator of -- for that</p> <p>11 transaction. Then we have Mr Ellis Ebohon for the legal</p> <p>12 aspect and --</p> <p>13 Q. Was he involved in that transaction?</p> <p>14 A. Well, to look at the legal aspect, to cover the legal</p> <p>15 aspects, of course.</p> <p>16 Q. Was anybody else involved in that PSC amendment?</p> <p>17 A. Yes. Probably not -- well, the team -- the main part of</p> <p>18 the team was composed by myself, by Mr Vicini and by the</p> <p>19 legal party.</p> <p>20 Q. And was Mr Pagano involved at all?</p> <p>21 A. Of course, but it was not him holding the direct</p> <p>22 negotiation. During a negotiation there is always</p> <p>23 a team which is following the amendment of the</p> <p>24 documents, all the aspects relevant to the negotiations,</p> <p>25 and then at management level to which we are presenting</p> <p style="text-align: center;">Page 171</p>
<p>1 directly as possible.</p> <p>2 A. Mr Chairman, the point -- just because if in June 2012</p> <p>3 we arrived at this amount, because we get this amount in</p> <p>4 June 2012 more or less, because in April we were still</p> <p>5 earning something which was a lower amount, which was in</p> <p>6 the range of 55/56 million. We have communication</p> <p>7 between the parties, we can see. Since we were in</p> <p>8 June 2012, we were closer to the completion of the SPA,</p> <p>9 the completion date. At that time there was no</p> <p>10 possibility to call for a Macom to revise the AFE.</p> <p>11 THE CHAIRMAN: Wait a second. That's fine. Now you're</p> <p>12 explaining why it wasn't approved, as far as I've</p> <p>13 understood.</p> <p>14 A. This is my --</p> <p>15 THE CHAIRMAN: You weren't asked that question directly.</p> <p>16 The lawyers for the claimant can ask you questions in</p> <p>17 redirect --</p> <p>18 A. I'm sorry.</p> <p>19 THE CHAIRMAN: But --</p> <p>20 MR WADE: But in fact my next question was going to be, was</p> <p>21 there ever an approval of the costs beyond 10 per cent?</p> <p>22 And I think you just said that there was never approval</p> <p>23 for more than the additional 10 per cent. I understand.</p> <p>24 Thank you.</p> <p>25 Moving topic, then, you say in your statement that</p> <p style="text-align: center;">Page 170</p>	<p>1 the results of the negotiation, which is deciding about</p> <p>2 the --</p> <p>3 Q. And was Mr Casula also part of the management level of</p> <p>4 the team?</p> <p>5 A. Yes, of course. He was the chairman of the company.</p> <p>6 Q. And he did participate in negotiations in relation to</p> <p>7 the amendment?</p> <p>8 A. Not directly in the negotiation. All our exchange of</p> <p>9 emails or communication between the two negotiations</p> <p>10 teams.</p> <p>11 Q. So not at the lower level?</p> <p>12 A. Not at your -- in the negotiation team directly. Of</p> <p>13 course, he was part of the management team to which we</p> <p>14 were referring to.</p> <p>15 Q. And if the management part of the team reached</p> <p>16 an agreement or a decision with the management part of</p> <p>17 the other side's team --</p> <p>18 A. Yes.</p> <p>19 Q. -- was that the decision that you had to implement in</p> <p>20 your drafting?</p> <p>21 A. Well, if there is a decision, if there is a decision at</p> <p>22 a higher level, usually the management level call the</p> <p>23 negotiation team asking for the implementation of -- for</p> <p>24 a proposal which include the implementation of such a</p> <p>25 decision.</p> <p style="text-align: center;">Page 172</p>

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<p>1 Q. I understand, thank you.</p> <p>2 A. This is the process.</p> <p>3 Q. And when you were negotiating the SPA amendment, NAE's</p> <p>4 primary objective, and perhaps both parties, but NAE's</p> <p>5 primary objective was to achieve completion, wasn't it?</p> <p>6 A. Yes, it was.</p> <p>7 Q. And the reason you were so keen to achieve completion</p> <p>8 was that the deal that you secured was -- and by "deal"</p> <p>9 I mean the payment that was agreed under the SPA -- was</p> <p>10 a vastly inflated payment for the interest that was</p> <p>11 being sold, wasn't it?</p> <p>12 A. Well, I didn't understand really the --</p> <p>13 Q. So the --</p> <p>14 A. So the payment --</p> <p>15 Q. -- payment that Allied promised to pay NAE was vastly in</p> <p>16 excess -- vastly means by a very great deal -- in excess</p> <p>17 of what the interest was worth. That's correct, isn't</p> <p>18 it?</p> <p>19 A. Well, I do not agree with this sentence, in the sense</p> <p>20 that I believe we provided to -- in the sense that in</p> <p>21 the documents, the value of our asset in our book was in</p> <p>22 the range of \$240 million.</p> <p>23 Q. Can I ask you please to open G21.</p> <p>24 THE CHAIRMAN: Were you finished?</p> <p>25 MR WADE: Sorry, I didn't mean -- I apologise if I had</p> <p style="text-align: center;">Page 173</p>	<p>1 is currently the chief executive, CEO, of Eni at the</p> <p>2 moment.</p> <p>3 Q. And in the cc line, the copied line, you see the people</p> <p>4 are mentioned Mr Magnani, Mr Ranco. Is it Ms Ranco?</p> <p>5 Mr Dall'Omo, Mr Pagano, Mr Bollini. I think that's a</p> <p>6 Mr, or it might be that that is a lady.</p> <p>7 Are those people in the cc line, are they board</p> <p>8 members of Eni's exploration and production division or</p> <p>9 were they directors of some other company?</p> <p>10 A. They were at that time in charge of various departments</p> <p>11 in the exploration and production division.</p> <p>12 Q. The subject of this email is "Nigeria OML 120 and 121</p> <p>13 assignment update"; is that correct?</p> <p>14 A. Yes.</p> <p>15 Q. I should say perhaps, members of the Tribunal, that</p> <p>16 I will be finished very soon. This is the last document</p> <p>17 I intend to take -- just because of the time.</p> <p>18 THE CHAIRMAN: Thank you very much.</p> <p>19 MR WADE: So we're not staying all night.</p> <p>20 Can you briefly quickly read the email to</p> <p>21 Mr Descalzi, which starts with "Claudio".</p> <p>22 A. Yes:</p> <p>23 "Below is the note shared with the competent</p> <p>24 function that illustrates the final condition with</p> <p>25 respect to the represented to the board of directors,</p> <p style="text-align: center;">Page 175</p>
<p>1 interrupted. I thought you had reached a natural</p> <p>2 conclusion.</p> <p>3 A. The value of the asset in our books was \$240 million,</p> <p>4 more or less, if I remember well, but the range is in</p> <p>5 this one in this way, and so the value of the asset was</p> <p>6 not so far -- the consideration was not so far from the</p> <p>7 value of the asset. This was the object -- the</p> <p>8 objective of our -- I mean, the target of our</p> <p>9 transaction, this value.</p> <p>10 Q. Can I ask you to turn to volume G21, please, at tab 550.</p> <p>11 LORD HOFFMANN: Tab?</p> <p>12 MR WADE: Tab 550.</p> <p>13 The first page of the exhibit is 107, and --</p> <p>14 A. Yes.</p> <p>15 Q. -- the English is at 109. Can I ask you, please, to</p> <p>16 turn to page 109.</p> <p>17 A. 109.</p> <p>18 Q. At the top of that page, can you see that the first</p> <p>19 email in this chain is an email from Mr Casula to</p> <p>20 Mr Descalzi, Claudio Descalzi?</p> <p>21 A. Yes.</p> <p>22 Q. Can you please explain to the Tribunal who Mr Descalzi</p> <p>23 was at the time and who is he now?</p> <p>24 A. Yes. Mr Descalzi was the chief operating officer of the</p> <p>25 exploration and production division at that time, and he</p> <p style="text-align: center;">Page 174</p>	<p>1 the primary difference is the guarantee given for the</p> <p>2 balance of the consideration. Now ultimate parent</p> <p>3 company guarantee originally bank guarantee."</p> <p>4 Q. I'm sorry, I didn't mean you to read it out loud, if</p> <p>5 I want you to read out loud I will ask you to. That's</p> <p>6 very kind of you. But I do invite the Tribunal to read</p> <p>7 the email, I just don't want to waste time on reading it</p> <p>8 out loud.</p> <p>9 But on the penultimate line before the end of the</p> <p>10 email, it says "the first \$100 million are already</p> <p>11 paid."</p> <p>12 Correct?</p> <p>13 A. Correct.</p> <p>14 Q. And the signature is now scheduled on the 28th. Is it</p> <p>15 fair to say that this email was presenting the terms of</p> <p>16 the agreement that had been reached in relation to the</p> <p>17 assignment of the OMLs in June 2012?</p> <p>18 A. Well, I was not part of this email. The email was sent</p> <p>19 on the 26th. I suppose that this is confirming the</p> <p>20 terms of the agreements which were analysed on the 28th.</p> <p>21 Q. So the first amendment agreement?</p> <p>22 A. The first amendment --</p> <p>23 Q. This is informing the directors of the terms of the</p> <p>24 first amendment; correct?</p> <p>25 A. I guess. I mean --</p> <p style="text-align: center;">Page 176</p>

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<p>1 Q. And can you turn to the next page, please, and although</p> <p>2 we don't have a signature, we're looking at the email</p> <p>3 which Mr Casula was forwarding to Mr Descalzi from</p> <p>4 Mr Pagano, in which the terms are actually summarised.</p> <p>5 A. Which email is it?</p> <p>6 Q. So the email which you started reading out loud was the</p> <p>7 email from Mr Casula to Mr Descalzi and he is forwarding</p> <p>8 an email from Mr Pagano, isn't he?</p> <p>9 A. Yes.</p> <p>10 Q. And the email from Mr Pagano has the same heading,</p> <p>11 121 -- "120/121 assignment update", and the second</p> <p>12 paragraph starts:</p> <p>13 "In the context of the realisation process of the</p> <p>14 Eni ENP portfolio" ..."</p> <p>15 I stop there for a second, since we're there, at</p> <p>16 this time Eni had decided to sell off a number of its</p> <p>17 assets; is that correct? Do you know if that's correct?</p> <p>18 Around June 2012, Eni was in a process, a general</p> <p>19 process, of selling off exploration and production</p> <p>20 assets?</p> <p>21 A. General process, I cannot say. To sell oil well 120 to</p> <p>22 121.</p> <p>23 Q. Well, if you can't say, then you can't. But he says</p> <p>24 here -- he explains the nature of the holdings in the</p> <p>25 OMLs, and he goes on to say at the conclusion of the</p> <p style="text-align: center;">Page 177</p>	<p>1 A. Yes.</p> <p>2 Q. You see that there? And that's the term that was</p> <p>3 agreed, wasn't it?</p> <p>4 A. Yes.</p> <p>5 Q. Further down, under the heading "Conclusions", there is</p> <p>6 a comment, bullet point 3:</p> <p>7 "Already with the payment at closing of the first</p> <p>8 tranche of the consideration..."</p> <p>9 And that's a payment that had already been made:</p> <p>10 "... Eni obtains better value compared with the</p> <p>11 expected residual value in the event of no assignment.</p> <p>12 It is believed that even with the new terms reported</p> <p>13 above, the assignment opportunity is in Eni's interest</p> <p>14 and thus should be pursued."</p> <p>15 So my question to you is that Mr Pagano here is</p> <p>16 describing that even with a payment of \$100 million,</p> <p>17 about 40 per cent of the agreed price, Eni has already</p> <p>18 made better value than keeping the asset? That's what's</p> <p>19 he's saying here; right?</p> <p>20 A. Well, the fact that it is a do nothing profile -- so</p> <p>21 looking at the value based on --</p> <p>22 Q. Can I first ask you, is that what he is saying here?</p> <p>23 A. This is what he said but it is not --</p> <p>24 Q. And therefore --</p> <p>25 THE CHAIRMAN: Just a second, if you would like to add a</p> <p style="text-align: center;">Page 179</p>
<p>1 farm-out process on 29 December, NAE and Allied, I am</p> <p>2 paraphrasing, agreed a price of 250 million and he gives</p> <p>3 the schedule of payments in the paragraph below.</p> <p>4 A. I'm sorry, I'm --</p> <p>5 Q. He lists the schedule of payments that's agreed, and</p> <p>6 then at the bottom of 109 there's a list of agreed</p> <p>7 comments.</p> <p>8 A. Yes.</p> <p>9 Q. Then at the top of 110 there is a discussion about bank</p> <p>10 guarantees or guarantees, and then in the paragraph</p> <p>11 after that, starting on 1 June --</p> <p>12 A. 2012.</p> <p>13 Q. -- "Allied notified NAE of its difficulties in</p> <p>14 finalising the transaction under the terms described</p> <p>15 above. After further discussion, after having extended</p> <p>16 via mutual accord the long-stop date to 28 June the</p> <p>17 parties agreed as following ..."</p> <p>18 Then again there is a list of payments.</p> <p>19 And then there is a section sign, I don't know what</p> <p>20 that's called, that section sign. It says:</p> <p>21 "The adjustments related to the costs sustained by</p> <p>22 NAE in the period from January to June 2012 shall be</p> <p>23 paid by Allied following the issuance of a parent</p> <p>24 guarantee by CAMAC International in favour of NAE for</p> <p>25 the corresponding value."</p> <p style="text-align: center;">Page 178</p>	<p>1 comment, please do.</p> <p>2 A. If I can explain, the point that the value of the asset</p> <p>3 is calculated only on the do nothing profile of the two</p> <p>4 wells was giving the value which is, of course, a low</p> <p>5 value of the asset. Of course, when you make</p> <p>6 an evaluation of the asset you have various scenarios.</p> <p>7 In the case, if we were looking at the redevelopment</p> <p>8 of the asset, it is -- because when we evaluate an asset</p> <p>9 we have usually different scenarios. If we were looking</p> <p>10 at the redevelopment of the asset with additional</p> <p>11 investment, additional intervention, it possible the</p> <p>12 value was different from the negative one represented in</p> <p>13 these -- in the present email, in the sense that --</p> <p>14 THE CHAIRMAN: Just a second but I am just looking at the</p> <p>15 email. The email says -- it doesn't talk about other</p> <p>16 scenarios. It talks about --</p> <p>17 A. It is --</p> <p>18 THE CHAIRMAN: "The first tranche of the consideration Eni</p> <p>19 obtains a better value compared to the expected residual</p> <p>20 value in the event of no assignment."</p> <p>21 And I think the comment was, do you have any comment</p> <p>22 on that? This is not your email, I don't believe, and</p> <p>23 do you have any comment on that particular sentence?</p> <p>24 A. The only comment that I can add to this email is the</p> <p>25 fact that I was the finance manager of the company and</p> <p style="text-align: center;">Page 180</p>

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<p>1 I know -- I know that the net value of the asset at that</p> <p>2 time was \$240 million. I believe that we represented</p> <p>3 this value to our internal -- to Eni's board of</p> <p>4 directors. I needed to check what we represented to</p> <p>5 them, but I remember that this was one of the</p> <p>6 information provided to the top management for</p> <p>7 submission of the approval to the Eni board of</p> <p>8 directors. One of the information was the value in our</p> <p>9 books was \$240 million.</p> <p>10 THE CHAIRMAN: But he doesn't mention that in his email.</p> <p>11 A. No, because this is an internal email to the management.</p> <p>12 It is not the what it was represented to the Eni board</p> <p>13 of directors. The Eni board of directors, the approval</p> <p>14 was got before that email, because we represented -- we</p> <p>15 presented our deal to the Eni board of directors before</p> <p>16 this email. So it was the -- the deal was already</p> <p>17 approved. What he was presenting to the CEO at that</p> <p>18 time was an updated situation on the negotiation but not</p> <p>19 the full picture of the value of the asset.</p> <p>20 MR WADE: Do you by any chance know why Mr Pagano is not</p> <p>21 giving evidence in this arbitration?</p> <p>22 A. No, no, I don't know.</p> <p>23 Q. One final question then, please. You believe that it's</p> <p>24 correct that if -- that a party should only be entitled</p> <p>25 to claim costs if he can prove that he's paid them.</p> <p style="text-align: center;">Page 181</p>	<p>1 we were never asked for the additional evidence.</p> <p>2 Q. If they had attended that meeting and -- you were</p> <p>3 willing to provide the additional evidence?</p> <p>4 A. Of course. At that time probably not all -- at that</p> <p>5 time probably not all the documents. If you are</p> <p>6 referring to the meeting of September 19, probably not</p> <p>7 all the documents were still available in September,</p> <p>8 because the time to recover all the invoices, accept all</p> <p>9 the invoices and make the payment probably was not</p> <p>10 enough to have all the documents in September. But, of</p> <p>11 course, we were providing what we had been able to get</p> <p>12 at that time.</p> <p>13 Q. And if in the meeting in September the invoices showed</p> <p>14 that you had asked for too much, would you then accept</p> <p>15 a lower payment?</p> <p>16 A. If there was a clear mistake, why not?</p> <p>17 MR WADE: Thank you. I have no more questions.</p> <p>18 Questions from THE TRIBUNAL</p> <p>19 THE CHAIRMAN: Were you involved in sending the final</p> <p>20 adjustment statement to Allied?</p> <p>21 A. Yes, I was.</p> <p>22 THE CHAIRMAN: Were you involved in sending the supporting</p> <p>23 data to Allied?</p> <p>24 A. Not directly. The supporting data that were sent in</p> <p>25 July 20 -- sorry, in June 2012 dealt -- of course</p> <p style="text-align: center;">Page 183</p>
<p>1 That's correct, isn't it?</p> <p>2 A. Well, this was not the intention of the parties. At the</p> <p>3 time we finalised the adjusted -- the final adjustment</p> <p>4 statement, because in June 2012 -- in July 2012, when we</p> <p>5 presented the final adjustment statement, there was, of</p> <p>6 course, no time to recover all the supporting documents</p> <p>7 of the cost included in the final adjustment statement,</p> <p>8 because, of course, there were -- there were invoices</p> <p>9 not yet received. So the final adjustment statement was</p> <p>10 based for some months on an estimate -- on costs which</p> <p>11 were supposed to be the final value, in the sense that</p> <p>12 in the management of a contract with a third party</p> <p>13 contractor you receive the invoice after the service has</p> <p>14 been rendered. Therefore, for the invoices relevant to</p> <p>15 June even to me the final invoice and, of course, the</p> <p>16 payment that usually make after 40/45 -- six days has</p> <p>17 not been made. So it was not possible in the short</p> <p>18 period provided by the SPA to provide to Allied all the</p> <p>19 supporting documents with evidence of the payment</p> <p>20 already -- all the payments done.</p> <p>21 But despite this factor, we -- after the submission</p> <p>22 of the final adjustment statement we gave the</p> <p>23 opportunity to Allied to sit together, to reconcile the</p> <p>24 position, to provide additional information, if they</p> <p>25 needed, to provide additional evidence. Unfortunately,</p> <p style="text-align: center;">Page 182</p>	<p>1 I know, because the activity was done by Mr Caropreso</p> <p>2 which was the finance management at the time and he told</p> <p>3 me that he collected -- he took at least two weeks to</p> <p>4 collect all the available documents with his own</p> <p>5 department, involving two or three staff of his own</p> <p>6 department. So they collect all the documents</p> <p>7 available, they scanned copies of the invoices, and</p> <p>8 the -- and they downloaded the entire books of the</p> <p>9 company from our SAP system. So we -- as company we</p> <p>10 have a subsystem in which we were booking all the</p> <p>11 transactions. The transactions were transparent to</p> <p>12 everybody, in the sense that downloading all the</p> <p>13 transactions, everything was tracked, the right</p> <p>14 transaction, the wrong transaction and the reversal of</p> <p>15 each transaction.</p> <p>16 THE CHAIRMAN: And that information, when was that provided?</p> <p>17 A. It was provided together with the final adjustment</p> <p>18 statement, one day before the final adjustment</p> <p>19 statement. There was a CD provided by letter --</p> <p>20 THE CHAIRMAN: I see that the date of it is July 23 but</p> <p>21 I also see the receipt is apparently exactly the same</p> <p>22 time by Allied. Do you have any explanation for that?</p> <p>23 Was it sent out on July 23 or July 24?</p> <p>24 A. I cannot answer. I believe it was the 23rd -- usually</p> <p>25 our -- what we were doing -- this was not the case but</p> <p style="text-align: center;">Page 184</p>

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15 June 2016

<p>1 usually we were advancing to our partner the letter by</p> <p>2 emails, because this was our general practice, advancing</p> <p>3 the letter by emails, then providing the original</p> <p>4 document by courier.</p> <p>5 THE CHAIRMAN: Yes. So you provided all of this material on</p> <p>6 a CD-ROM and they received it on July 26 when they</p> <p>7 received the final adjustment statement --</p> <p>8 A. Yes --</p> <p>9 THE CHAIRMAN: -- is that correct?</p> <p>10 A. -- we have the evidence that they received -- we have</p> <p>11 the stamp on the letter. In the letter -- the original</p> <p>12 letter -- the original letter that we provided to them</p> <p>13 is stamped by Allied on July 26.</p> <p>14 THE CHAIRMAN: So they would not have had a chance to review</p> <p>15 the CD before they received the final adjustment</p> <p>16 statement; is that correct?</p> <p>17 A. Well, in the CD there was already the breakdown of the</p> <p>18 costs --</p> <p>19 THE CHAIRMAN: Excuse me --</p> <p>20 A. Yes, I don't believe they were able to --</p> <p>21 THE CHAIRMAN: They received them virtually at the same</p> <p>22 time?</p> <p>23 A. Yes.</p> <p>24 THE CHAIRMAN: That was the only question.</p> <p>25 A. Yes, I believe, yes.</p> <p style="text-align: right;">Page 185</p>	<p>1 INDEX</p> <p>2 PAGE</p> <p>3 Housekeeping1</p> <p>4</p> <p>5 Opening submissions by MR NESBITT5</p> <p>6</p> <p>7 Opening submissions by MR SHOESMITH30</p> <p>8</p> <p>9 Further opening submissions by48</p> <p>10 MR NESBITT</p> <p>11</p> <p>12 Opening submissions by MR WADE82</p> <p>13</p> <p>14 Opening submissions by MR GUNNING90</p> <p>15</p> <p>16 MR GIUSEPPE CERRITO (called)158</p> <p>17</p> <p>18 Examination-in-chief by MR NESBITT158</p> <p>19</p> <p>20 Cross-examination by MR WADE159</p> <p>21</p> <p>22 Questions from THE TRIBUNAL183</p> <p>23</p> <p>24</p> <p>25</p> <p style="text-align: right;">Page 187</p>
<p>1 THE CHAIRMAN: Okay.</p> <p>2 Redirect?</p> <p>3 MR NESBITT: No redirect, thank you Mr Chairman.</p> <p>4 THE CHAIRMAN: Thank you very much. No further questions,</p> <p>5 then. You are released, Mr Cerrito. Thank you very</p> <p>6 much for your testimony.</p> <p>7 A. Thank you everybody.</p> <p>8 THE CHAIRMAN: Shall we now adjourn until tomorrow morning</p> <p>9 at 10.00 am?</p> <p>10 MR NESBITT: If we must, Mr Chairman.</p> <p>11 THE CHAIRMAN: I look forward to seeing you at 10.00 am.</p> <p>12 (5.30 pm)</p> <p>13 (The arbitration adjourned until 10.00 am</p> <p>14 on Thursday, 16 June 2016)</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p> <p style="text-align: right;">Page 186</p>	

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